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CURRENCIES — Time to bid farewell to the Louvre accord
Page 19

World News

UK calls for full French role in a revised Nato

British Foreign Secretary Douglas Hurd urged that France should once again become a full participant in the defence of the west in any new arrangements emerging from the rethinking of Nato's role.

"Out of that rethinking it is important that there should be full, full French participation in the new arrangements," he said. Page 22

Fresh Natal clashes

South African police sent reinforcements to Natal, where rival black factions, ignoring recent calls for peace, clashed in some of the worst fighting the province has seen in three years of conflict. Page 20

Violence mars poll

Zimbabweans went to the polls following a week of violence which has marred the presidential and parliamentary campaigns. Page 6

US missionary shot

US evangelical Christian missionary was murdered at his home in the southern Lebanese village of Rashaya Fakhar on Tuesday. The Lebanese Communist Party has claimed responsibility. Page 6

Arab mission to EC

Arab foreign ministers will meet EC ministers in Luxembourg on Monday in the first of several Arab missions designed to back the Palestinian intifada (uprising) in the Israeli-occupied territories.

Abidjan protest

Soldiers used tear gas to disperse more than 1,000 protesters in the centre of Abidjan as illegal demonstrations brought the Ivory Coast capital to a standstill. Page 6

Sweden expels spy

Sweden's Foreign Ministry accused a Soviet trade representative of industrial espionage and ordered him to leave.

Philippine attacks

Communist guerrillas launched a series of attacks in the Philippines to mark the 21st anniversary of the founding of their rebel army, hitting military and police units and killing a Nestlé executive.

Serbians arrested

Police arrested the leaders of a Serbian nationalist opposition party when they tried to stage a rally in defiance of a ban, the Belgrade newspaper Vecernje Novosti said.

Contra rebels plan

Five Central American presidents are to give priority to disarming the US-backed Nicaraguan Contra rebels, at a summit next week in Nicaragua. It will be the first regional summit to be held in the country. Page 7

Turkish resignation

The Turkish Finance and Customs Minister, Mr Ekrem Pakdemirli, resigned late last night after a stormy session of the cabinet, raising doubts about the government's ability to last out its second term until 1992.

Zaire reforms hinted

President Mobutu Sese Seko of Zaire hinted at political reforms in the country he has ruled as a one-party state for nearly 25 years, saying there would be changes.

Honecker trial off

East Germany's disgraced former Communist leader Erich Honecker and top aides will almost certainly not go on trial because they are too ill, the state prosecutor's office said.

Short sharp shock

Pigeons trying to land on Rome's Trevi fountain will get a nasty shock from September: restorers said it would be wired with low voltage electricity to keep away pigeons and their droppings.

Business Summary

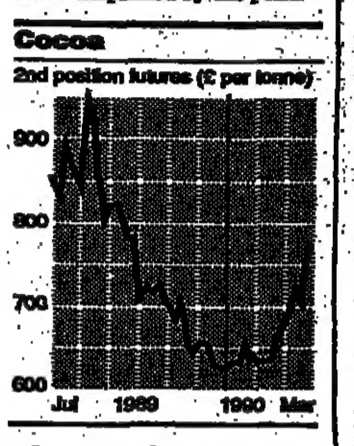
Gatt backs Japan in anti-dumping row with EC

JAPAN has scored a resounding victory in Gatt in its campaign against the European Community's decision to impose anti-dumping duties on so-called "screwdriver" assembly plants.

The disputes panel on the Japanese complaint has ruled unequivocally that the duties imposed on Japanese electronic typewriters and other products assembled in the EC are inconsistent with Gatt rules. Page 20

COCOA prices closed in London at the highest levels for nearly six months. The recent rise has been largely technical, but underpinned by the political unrest in the Ivory Coast, world's biggest producer, and uncertainty about Brazil after sweeping economic reforms. Commodities, Page 34.

Cocoa
2nd position futures (£ per tonne)



MARKETS: Tokyo took another battering with the yen continuing to devalue against the US dollar and the equity market returning to its slide. The Nikkei closed with a loss of 562.39 at 31,263.57. The dollar closed nearly Y1 above Tuesday's New York close, trading above Y158 for the first time since January 1987. Markets, back page, section II.

EAST GERMAN industry is even more inefficient than feared, with output per head possibly as low as 30 per cent of West Germany's rather than the previous 50 per cent estimate, said Theo Waigel, West German Finance Minister. Page 2

PORTUGAL'S central bank is facing the possible loss of $100m in gold bullion placed through a London affiliate of Drexel Burnham Lambert, the Wall Street investment bank that collapsed in February. Page 3

THORN EMI abandoned an attempt to dispose of its defence electronics activities, although the group hopes to sell Systron Donner Corporation, its US aerospace subsystems and components subsidiary, to BEI Electronics of California. Page 21

ENERGY: Last-minute upset to the privatisation of the UK electricity industry was narrowly averted when the EC gave its permission to the payment of nuclear power subsidies. Page 20

GERMAN unification is creating pressure for higher interest rates in the rest of the world, the Amex Bank review reported. Page 3

CONSTRUCTION: The entire British and Canadian management team responsible for constructing the UK's tallest building – an 800ft office tower in London's docklands – has been sacked. Page 11

TRADE: Mexico and the US have both expressed reservations about moves to tighten their trade links with a view to the eventual formation of a North American Free Trade Area. Page 4

JAPAN'S national tax agency has backed down from a demand made last month that liquor importers provide detailed information on the costs and prices of each of their brands, following strong opposition from European drinks groups. Page 4

Iraqis seized after attempt to smuggle nuclear triggers

By Edward Mortimer in London, Lionel Barber in Washington and Alan Friedman in New York

AN attempt by Iraq to smuggle electronic triggers for nuclear warheads from the US was foiled yesterday at London's Heathrow airport after an 18-month operation conducted jointly by American and British customs officers.

Four people were arrested, including the Iraqi Airways station manager at Heathrow, Mr O. Latif, after an attempt was made to transfer 40 electronic devices to an Iraqi Airways flight.

Mr Latif faces deportation. The other three people arrested are likely to face criminal charges. One of them, Mr A Daghir, a "businessman" who was arrested in Esher, Surrey, would also have been deported had he not had British as well as Iraqi nationality.

Whitehall officials said last night that Mr Daghir was a director of a British company – Euromac of Thames Ditton in Surrey. The other two, whose names were not given, are Lebanese and Cypriot. They, too, were arrested at Heathrow.

According to a UK official, Iraq was probably seeking to use the detonators for its Condor missile, a two-stage rocket capable of carrying nuclear weapons that has been under development since 1985. Iraq has used part of $3bn of improper letters of credit from Italy's Banca Nazionalde del Lavoro (BNL) to fund Condor-related industrial projects.

The incident will further strain relations between Britain and Iraq. Mr Douglas Hurd, UK Foreign Secretary, resisted pressure to break diplomatic relations or withdraw trade credits from Iraq earlier this month after the hanging in Baghdad of Mr Farzad Bazoft, an Iranian-born journalist working for the Observer newspaper, who was accused of espionage.

The arrests are understood to have been the final stage of a US-UK "sting" operation in which customs officials posed as willing agents in the smuggling effort. The operation began 18 months ago when Iraq attempted to acquire a series of electronic missile components from a company in San Diego, California.

The California company alerted US customs authorities shortly after Iraq first tried to place the order. US and British intelligence services have worked with other government officials to track the shipments.

The US-manufactured electronic devices – known as krytons – arrived at Heathrow airport this week on board a TWA flight from Los Angeles and Kennedy airport, New York, and were taken to a Heathrow cargo house.

The devices, described by the US Justice Department as "electrical military capacitators," had been rendered inoperative by the US manufacturer who was secretly co-operating with US authorities.

"Customs let the shipment go so as to discover the destination of the material," the UK official said. The original shipment from California contained 40 "genuine" capacitors, manufactured by a company in San Diego, which could serve as nuclear detonating devices.

However, the official said, there was a "degree of substitution" in which fake components were inserted into the package.

A British Home Office spokesman said Mr Latif was being deported "for reasons of national security and other reasons of a political nature connected with legislation governing the export of strategic goods from the UK."

Mr Gary Milhollin, a missile expert who has served as a consultant to the US Government, said yesterday that Iraq was attempting to buy more than just the detonators.

"What they apparently wanted was a complete package of electronics that goes into the centre of a bomb and

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LSE chief outlines plan for single European market

By Richard Waters in London

THE LONDON Stock Exchange yesterday proposed a joint development with the German Federation of Stock Exchanges, throwing open the debate about how to build a single European stock market.

The move could cut other centres, such as Paris and Amsterdam, out of the development of the proposed Euromarket if they refused to follow any lead set by London and Frankfurt.

The proposal, made by Mr Andrew Hugh Smith, London Stock Exchange chairman, in a speech in Frankfurt, is intended to break the deadlock that has developed between European exchanges about the form the market should take.

In his first important speech on the subject since floating the idea of a Europe-wide equity market last year, Mr Hugh Smith attacked a proposal put forward by the Paris bourse for a so-called Single European List. He said it was "rigorous, ingenious and consistent" but was also "conceptually flawed".

Under the French plan, the shares of the leading companies in the Community would be traded simultaneously on as many Community exchanges as chose to trade them. By channelling their transactions through their local intermediaries and stock markets, investors would able to use familiar share-dealing arrangements to trade international stocks, while each stock market would capture a share of the trades in these companies.

Mr Hugh Smith said the idea would appeal to retail investors. However, it would do nothing to attract professional fund managers, particularly from outside the EC, who wanted to deal in a single market in the European time zone.

Continued on Page 20

American General faces $6.4bn takeover offer from competitor

By Roderick Oram in New York

AMERICAN GENERAL, a leading US life insurance and consumer finance group, has received a $6.4bn cash and shares takeover offer from Torchmark, an aggressive but far smaller competitor.

The Houston-based company had no immediate reply but its board will consider the offer at its next meeting on May 2. Some analysts considered that the offer was close to American General's value.

Torchmark, based in Birmingham, Alabama, offered to pay $50 a share cash for 50 per cent of American General and Torchmark common stock worth $50 a share for the remainder.

Doubts over Torchmark's ability to finance the bid dampened the market's enthusiasm. American General's stock, which is listed on several exchanges, rose $6⅞ to $36⅞ in New York, while Torchmark's edged up $⅛ to $48⅝.

In financial terms, the bid is a fight between a David and Goliath. At year-end, Torchmark, which gave no details yesterday of how it would raise the bid funds, reported assets of $4.9bn and shareholders equity of $795m, while American General reported $32.1bn and $4.1bn respectively.

Torchmark's management is well respected on Wall Street for its expansion of the long-standing company. Like American General which had a 9.5 per cent stake in Torchmark in the early 1980s, it makes good use of its own salesforce to sell life insurance and other financial service products to customers in their homes.

But American General may have inadvertently given a bidder a way to partly finance a takeover, suggested Ms Joyce Culbert, an analysts with S.G. Warburg in New York. By its own account, American General has some $2bn of excess capital which new owners could use to help pay the takeover bill.

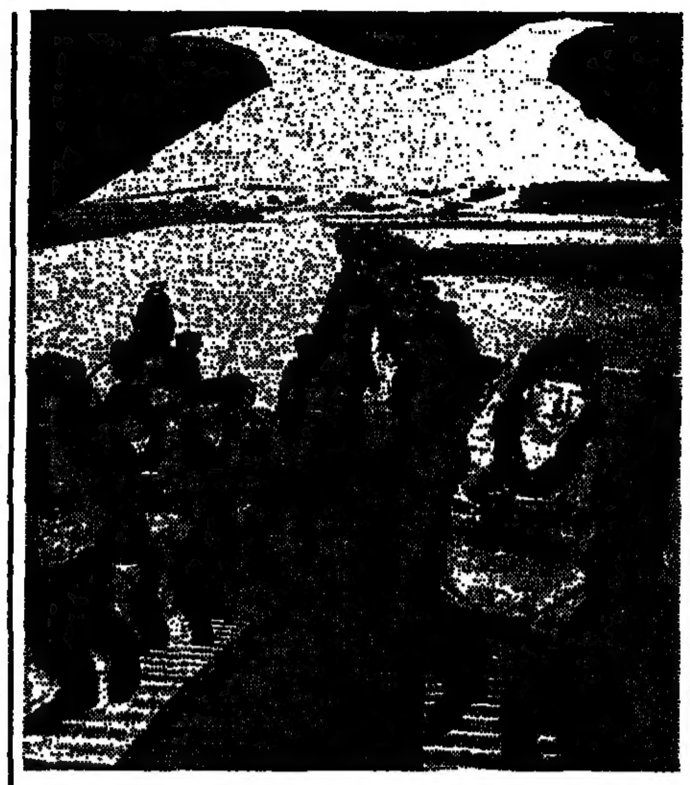
Half the excess capital was generated last year by the sale of two subsidiaries. Maryland Casualty, its property-casualty unit was bought by Zurich the Swiss insurer, for $740m. Its group health business was bought by Blue Cross-Blue Shield of Indiana for $175m. The remaining excess capital is in its home service life insurance business.

It divested the low profit businesses to concentrate on higher margin life insurance, mortgage services and consumer finance.

To boost the latter business, it paid $665m in 1988 for 500 consumer finance offices across the US from Manufacturers Hanover. But these were still underperforming, Ms Culbert said.

American General operates in all 50 states, indicating that Torchmark could face a tortuous battle with state insurance commissions should its offer turn into a hostile takeover fight.

Farmers Group, the California insurer, used the regulatory process to delay its takeover by BAT of the UK. In turn, BAT is now using the same device to fight off Hoylake, the investment vehicle led by Sir James Goldsmith, the British financier.



Soviet paratroopers taking part in regular spring military exercises board an aircraft in Vilnius yesterday

Lithuania calls for end to Soviet military action

By Mark Nicholson in Moscow

HOPES OF early talks between Moscow and the rebellious republic of Lithuania dimmed yesterday as a tense stand-off developed over the fate of an estimated 1,000 Red Army deserters in the Baltic republic.

Lithuanian leaders repeated their eagerness to open discussions with Moscow – preferably on "neutral soil" – but they said they were not likely to embrace talks at any level with Moscow without a firm guarantee that there would be no further military action by Soviet troops in the republic.

Mr Vytautas Landsbergis, the Lithuanian President, expressed concern in a US television interview that Soviet troops were preparing for new operations because they want to take away hunting rifles. "This condition, in which the force can be used, is very dangerous," he said.

The Soviet Defence Ministry was quoted by the news agency Tass as saying that Soviet forces intended to apprehend all deserters in the republic and return them to their units.

Officials at the Lithuanian parliament said there were an estimated 1,000 deserters already in the Baltic state and that a trickle continued to arrive from across the Soviet Union. Most were said to be staying with sympathetic families in small towns and villages.

Soviet paratroops seized at least 23 deserters during dawn raids on Tuesday in the capital Vilnius and in Kaunas.

In an indication of continued tension in the republic yesterday, more than 100 members of a Lithuanian volunteer force – last week declared illegal by Mr Mikhail Gorbachev, the Soviet leader – were deployed to guard the Supreme Soviet building and key communication installations which are still in Lithuanian hands.

Lithuanian leaders sought a solid undertaking that there would be no further Soviet military action on the republic's soil. Mr Bronislavas Kuzmickas, a deputy in the Lithuanian parliament, said in an interview that the republic's leaders would not open talks

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Silent protest in Kosovo, Moscow insists on German property rights, Page 2; Thatcher's advice, Page 11; Lombard, Page 19

UK bank chief says world rates are set to increase

By Andrew Marshall in London

THE world is entering a period of higher interest rates, Mr Robin Leigh-Pemberton, Governor of the Bank of England, said yesterday, although he believed the UK could escape further rate rises.

The Governor, in testimony on last week's budget to the House of Commons Treasury and Civil Service Committee, also backed the conditions for UK entry to the exchange rate mechanism of the European Monetary System set out over the weekend by Mr John Major, UK Chancellor of the Exchequer.

"The industrial world is in for an era of high interest rates," Mr Leigh-Pemberton said, responding to questions about the prospects for lower UK interest rates.

He said this was partly because of rising inflationary pressures. But there was also a structural change caused by the high demand for capital, particularly in eastern Europe and the low level of savings in many countries, including the UK.

However, UK interest rate rises did not need to follow those in other countries. The exception to this would be if sterling came under pressure.

On foreign exchange markets, sterling closed little changed yesterday, at DM2.7850 and $1.6300. The Governor's comments had little impact on the currency, which has been pushed down in recent weeks by the budget and the Government's poor showing in the opinion polls.

On the question of ERM entry, Mr Leigh-Pemberton backed the view of Mr Major that the key question was now inflation. At the European Community summit in Madrid, Mrs Margaret Thatcher said Britain would join when other EC members removed exchange controls, when UK inflation was lower and when there was proper competition within the Community.

Echoing Mr Major, Mr Leigh-Pemberton said controls that remained were "details compared with the predominant consideration of inflation." Government officials dismissed any suggestions of disagreement between this view and Mrs Thatcher's statements.

Mr Leigh-Pemberton said he expected UK inflation to peak in early summer, "around 9 per cent – maybe higher." Rates "under strain", Page 3

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Troubled Haiti gets a rare chance of democracy

Mrs Ertha Pascal-Trouillot, Haiti's interim President, could write herself into the troubled history of her country if she is left alone by the army and gets help from foreign friends and neighbours Page 8

MARKETS

STERLING
New York lunchtime: $1.6310
London: $1.6300 (1.6260); DM2.7850 (2.7800); FFr9.3575 (9.3325); SFr2.4675 (2.4575); Y258.50 (255.75); £ Index 87.3 (87.2)

GOLD
New York: Comex Apr $368.8 (369.0)
London: $369.75 (370.0)

N SEA OIL (Argus)
Brent 15-day May $18.35 (18.375)

Chief price changes yesterday: Page 21

DOLLAR
New York lunchtime: DM1.7095; FFr5.7465; SFr1.5165; Y158.73
London: DM1.7080 (1.7100); FFr5.7400 (5.7525); SFr1.5135 (1.5170); Y158.65 (157.25); $ Index 69.1 (69.0)
Tokyo close: Y158.65

US lunchtime rates
Fed Funds 8¼%
3-mo Treasury Bills: yield: 8.098%
Long Bond: 100½; yield: 8.484%

STOCK INDICES
FT-SE 100: 2,275.0 (+8.8)
FT Ordinary: 1,793.0 (+6.4)
FT-A All-Share: 1,125.57 (+0.3%)
New York lunchtime: DJ Ind. Av. 2,731.31 (−5.65); S&P Comp 341.01 (−0.49)
Tokyo: Nikkei 31,263.57 (−562.39)

LONDON MONEY
3-month interbank: closing 15⅝% (15⅝)
Life long gilt future: Jun 80⅞ (80⅞)

Gorbachev spells out aims for new Soviet power base

By Quentin Peel in Moscow

THE real significance of a switch to presidential rule is beginning to dawn on the Soviet people, as the once all-powerful institutions of the Communist Party are gradually being removed from the reins of power.

The first full meeting of the new Presidential Council was given saturation coverage in the official media yesterday, as President Mikhail Gorbachev spelt out his vision of the new system.

With the entire front page of Pravda, the definitive voice of the Communist Party, devoted to the presidency, page two was filled with the proposed new party rules, showing that the post of General Secretary – the job of party leader since the time of Joseph Stalin – will cease to exist. Moreover the central committee's Politburo, hitherto the hub of all effective authority above the Government, will become an unwieldy federal institution.

For almost one-and-a-half hours on Tuesday night, Soviet television was devoted to the presidency, marred only by a Freudian slip of the tongue when the newsreader referred to "Comrade Khrushchev" when he meant to say "Comrade Gorbachev".

It became clear yesterday that members of the Presidential Council see it as a full-time job when Mr Yevgeny Primakov announced his resignation as chairman of the Soviet of the Union, one of the two chambers of the Supreme Soviet.

Although the membership remains somewhat bizarre and awkward – the appointment of two fervent Russian nationalists in the shape of Mr Valentin Rasputin, the writer, and Mr Veniamin Yarin, a conservative workers' leader, has horrified the radical intelligentsia – the body looks set to become the new power centre, beneath Mr Gorbachev himself.

It represents a clear attempt to balance politics, regional interests and subject specialists, while falling short of a broad-based coalition which may still be needed to give popular support to unpleasant economic reforms. All its members owe their positions to Mr Gorbachev and he can replace them when he wants.

For the President, top priority clearly remains radical action to accelerate economic reform, stressing above all the promotion of individual initiative, breaking up state monopolies, and creating "sound competition". To the extent that the Council of Ministers, under Prime Minister Nikolai Ryzhkov, has failed to be radical enough, the presidency is now set to make the running.

In words which clearly reflect the thinking of his radical economic adviser, Prof Nikolai Petrakov, Mr Gorbachev promised "measures to effect drastic changes in the management sphere, encourage joint stock ownership and elaborate anti-monopoly legislation," along with separate anti-inflation measures.

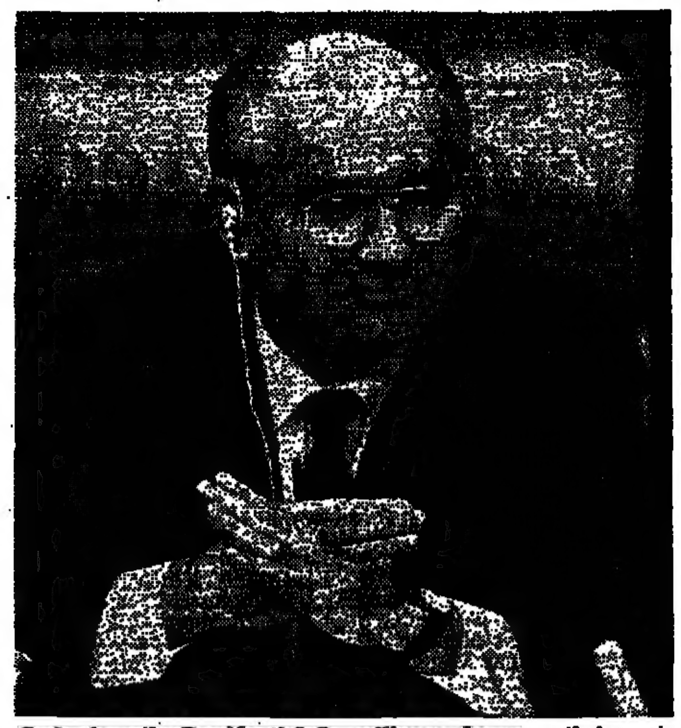
However, he also showed acute awareness of the failure to put reformist words into action to date, putting great emphasis on the urgent need for newly elected local councils to put land and property reform laws into effect.

The other top priority is the creation of a new constitutional basis for the Soviet federation, in a desperate effort to head off further attempts at secession like Lithuania's. That will be done in the new Federal Council, meeting for the first time tomorrow.

Yet reformers already believe that Mr Gorbachev's hopes to renegotiate the Union Treaty will be doomed to failure in the face of increasingly recalcitrant republics and that he must consider a far looser confederation, or even British-style Commonwealth.

Two other important working bodies have been established. One on law and order is chaired by Mr Alexander Yakovlev, Mr Gorbachev's closest political aide, to contain the more conservative instincts of General Vladimir Kryuchkov of the KGB, Mr Vadim Bakatin at the Interior Ministry, and Mr Yarin.

The other new body heralded by the President is "a mechanism for analysis, drafting mechanisms and control" of the whole field of foreign economic relations, including the question of making the rouble convertible.



Gorbachev: the Presidential Council's members owe their posts to him and he can replace them when he wants

Czechoslovakia set to adopt delayed economic reforms

By Leslie Colitt in Prague

THE Czechoslovak Government plans to adopt principal economic reforms in two weeks after delays caused by disagreements within the Government and rivalries between Czechs and Slovaks.

Mr Vladimir Dlouhy, the Deputy Prime Minister and head of the Planning Commission, said yesterday that the reforms to be adopted on April 12 would include:

- Internal convertibility of the Czechoslovak koruna for companies by the end of 1990. They will be able to buy unlimited amounts of hard currency from the banks.
- Freeing of prices in stages by the end of the year, accompanied by the abolition of subsidies.
- Elimination of central planning and creation of an office of privatisation under the Ministry of Finance. The privatisation office is to be headed by Mr Dusan Triska, the senior ministry adviser.

Mr Dlouhy said that in addition to dissolving his own Planning Commission next month he favoured eliminating the industrial branch ministries and creating a single Ministry of Economics. He also wanted the Price Board to be abolished and changed into an anti-monopoly office. Mr Dlouhy said that while price rises were among the most politically sensitive reforms, the "sooner we announce them the better for us. We have a popular mandate."

He appears to have allied himself with Mr Vaclav Klaus, the Finance Minister and radical reformer who favours early price rises. Mr Valter Komarek, the First Deputy Prime Minister in charge of economic policy and Mr Klaus's chief rival, has rejected any price rises before the elections on June 8.

Growing nationalist rivalry between Czechs and Slovaks over the correct name for Czechoslovakia has threatened to overshadow the reforms. Mr Jan Urban, a leader of the Civic Forum, which is now more of a governing than an opposition group, said a full-scale debate on the issue in parliament today could produce a parliamentary crisis.

The Slovaks, who have had their own republic since 1969, have dismayed their Czech brethren by insisting that Czechoslovakia be renamed Czecho-Slovakia.

Mr Slavomir Stracar, the Minister of Metallurgy and a Slovak, said the hyphen reflected a legitimate desire to have "two nations and two republics". Producing a copy of the 1918 Pittsburgh Agreement which established the modern "Czecho-Slovak Republic," he noted that the document was signed by Mr Tomas Masaryk, the country's first President.

Unknowingly, Mr Vaclav Havel, the President, triggered the argument last January when he proposed dropping the word "Socialist" from "Czechoslovak Socialist Republic" and adopting a new coat of arms which, however, did not show Slovakia sufficiently prominently, its citizens claimed. The Government this week appealed for a postponement on a decision.

East German industry 'more inefficient than thought'

By David Goodhart in Bonn

EAST GERMAN industry is even more inefficient than feared, with output per head possibly as low as 30 per cent of West Germany's rather than the previous 50 per cent estimate, according to Mr Theo Waigel, the West German Finance Minister.

Addressing the budget committee of the West German parliament, Mr Waigel nevertheless insisted that higher than expected growth in West Germany this year – now estimated at 4 per cent – made a tax increase unnecessary to cover the extra costs of unity.

He admitted that many of the problems associated with monetary union were far from resolved and that the biggest was "the internal debt structure in East Germany."

He pointed out that if, as seemed increasingly likely, the 160bn East German marks in private savings accounts were converted to D-Marks at a 1:1 rate, then the large debts of the corporate sector, where private savings were being used, would have to receive equal treatment to avoid creating a serious mismatch between assets and liabilities in the banking system.

The corporate sector might have difficulty paying D-Mark interest rates, especially if it was rendered uncompetitive by a 1:1 conversion of wages. "We must not burden the corporate sector with too many difficulties as it tries to make a start in the market economy."

There are growing doubts within the centre-right coalition that a 1:1 conversion should apply across the board, with a lower conversion rate now being favoured for wages and pensioners.

Mr Waigel said the external position of East Germany was also problematical for currency union. Foreign debt was continuing to grow and planned public spending this year was 180bn-190bn Marks, with net debt of about 17bn Marks.

The Bonn Labour Ministry's estimate of the social costs of union is believed to be DM15bn a year and the RWI economic institute in Essen has calculated the overall costs to the public purse at DM35bn a year.

- East Germany's I G Metall trade union, advised by its West German sister, has pushed through "privatisation" of one of the largest subsidiaries of the Robotron industrial group, which it hopes will become a model for the whole economy.

The plan, implemented against the wishes of Mr Friedrich Wokurka, the group's head, will give 75 per cent of the company to a fund controlled by employees which will sell shares and recycle the money into the company. The remaining 25 per cent will be held in trust for employees.

Talks to open on grand coalition

TALKS begin today on the formation of a grand coalition in East Germany after the Social Democrats abandoned their reservations about joining a government which will almost certainly include the DSU, junior conservative partner of the dominant Christian Democrats, writes David Goodhart.

The SPD's conditions are that a future government should immediately recognise the border with Poland and existing ownership rights in East Germany and should promote both social welfare and worker participation in company decisions.

More problematical will be the distribution of ministries in what is likely to be a 24-person government.

The issue of how to treat former members of, or collaborators with, the Stasi secret police continues to be a dominant theme in East Berlin. The Bonn Government is pressing for a conciliatory attitude but critics in both West and East Germany, including the groups which led the revolution in its early stages, fear a repetition of the half-hearted de-Nazification in West Germany and are demanding that all relevant material be published and that the first East German parliament should be as free as possible of former Stasi agents.

- Bonn yesterday announced it would be tightening procedures for the entry of people of German origin from eastern Europe (excluding East Germany) and the Soviet Union. A total of 377,000, mainly from Poland, arrived in West Germany last year and 100,000 have already arrived this year.
- Erich Honecker, East Germany's disgraced former Communist leader, and top aides will almost certainly not go on trial because they are too ill, the state prosecutor's office said yesterday, Reuter reports.

Moscow tries to hold line on property rights

By Mark Nicholson in Moscow

THE Soviet Union has insisted in an official statement that property rights in East Germany which were established under post-war Soviet authority must be respected during the process of German unification.

By raising the issue, which was discussed in Moscow during the visit last month of Mr Hans Modrow, the former East German Prime Minister, Moscow appears to be adding its voice to internal East German debate on the matter.

The Soviet Union says that the nationalisation of land and industrial property in the late 1940s was authorised by the Potsdam agreement and by referendums in the Soviet occupied zone, and that attempts to dispute the ownership under a united Germany would be unacceptable.

Silent protests in Kosovo over Serbian measures

ETHNIC Albanians, many dressed in black, staged "a day of silence" in Yugoslavia's Kosovo province yesterday, the anniversary of Serbian cutbacks in the region's autonomy that sparked bloody riots, Reuter reports from the capital, Pristina.

Air force jets and helicopters buzzed the city and thousands of heavily-armed police patrolled the province as many ethnic Albanians stopped work for two hours, stayed indoors or lowered flags to half mast.

Pristina Radio said police broke up protests by several hundred people in a few villages. Reporters saw three ethnic Albanians arrested in Pristina but no violent clashes were reported.

The ethnic Albanians make up 1.7m of Kosovo's 1.8m population.

Belgian David takes on Europe's airline Goliaths

Tim Dickson talks to the man challenging British Airways' link-up with Sabena and KLM

"WE SHOULD at least be given the chance to compete", says Mr Georges Gutelman, in a disarming appeal to the listener's sense of fair play.

Coming from an interview with the chairman of Belgium's Trans European Airways (TEA), one is left with the distinct impression, however, that this tough entrepreneur expects few favours in his battle to upset the joint venture plans of the country's state-controlled carrier Sabena, British Airways, and KLM of the Netherlands.

Clearly convinced of the righteousness of his cause, Mr Gutelman talks darkly of powerful "enemies" in the opposing camp, and cites their well-documented and, as he sees it, dishonourable role in the downfall of Sir Freddie Laker to justify describing BA and Sabena as commercial "killers".

Most of the headlines this week have been reserved for the decision of the UK's Office of Fair Trading to refer BA's purchase of a 20 per cent stake in Sabena World Airlines (SWA) to the Monopolies Commission, and to the European Commission's gathering investigation into the competitive implications of this link.

TEA's domestic battle in the Belgian courts, by contrast, has received relatively scant attention, even though the case of Belgium's only independent airline is especially salutary before today's discussion by European Community transport ministers in Brussels of the next stage of EC airline deregulation.

The European Commission yesterday agreed to table a draft regulation aimed at preventing European airports abusing their monopoly positions. It will introduce a framework for consultations between airlines and airports over slot allocations and set out criteria for the fixing of landing and take off fees. Brussels is concerned by reports that certain airports are discriminating in favour of their domestic carriers and against foreign airlines.

Mr Gutelman, who displayed early flair as a student when he filled transatlantic charter aircraft with his friends on condition that the airline gave him a free seat, has built TEA into a successful charter operation since he started the business in 1971.

The company boasts 17 Boeing and Airbus aircraft and has 30 more on order, flew more than 800,000 passengers to a variety of mostly Mediterranean destinations last year, and turned in profits of BFr400m on sales of around BFr11bn (£192m) in 1989.

TEA is not alone in believing that further liberalisation and cheaper fares pose a long-term threat to the charter business and that its only guarantee of survival is to start offering scheduled services to its customers. Applications to the Belgian Government for permits to fly between Brussels National Airport (Zaventem) and London, Frankfurt, Geneva, Madrid and Paris, however, have all been flatly rejected on the grounds that Sabena enjoys the exclusive Belgian government rights on these routes (so-called single "designation").

Trans European's Georges Gutelman

Mr Gutelman finds it a "first class paradox" that under current rules TEA – independent, Belgian-owned, profitable and a proven airline operator – is denied access to Zaventem when around 60 foreign airlines (including 28 from the UK) can fly in and out of the Belgian capital. This, he points out, illustrates the contrast between conservative Belgium and the willingness of certain other more liberal governments to allow "multiple designation" on busy routes.

Under a political agreement reached by EC member states in December it is likely to become more difficult for national authorities to grant exclusive rights to a chosen airline from mid-1992/early 1993 – thereby opening up opportunities for new competitors. But, according to TEA, it will be too late by then because Brussels will already be "saturated" and the BA/Sabena/KLM combine will have consolidated its "monopoly grip" on one of Europe's most lucrative "hubs".

TEA's case before the Belgian courts - adjourned until late next month - rests on the interpretation of a 1949 law which vests Sabena with the exclusive rights to operate from Zaventem. The charter airline claims that the decision to transfer these rights to SWA - the new operating subsidiary in which Sabena has a 60 per cent stake and BA and KLM 20 per cent each - is illegal as it stands. Notwithstanding the "blessing" of the Belgian Government, the legislation should be formally amended.

Were the Belgian courts to agree, this would put a giant spanner in the SWA works. But Mr Gutelman is not counting on it. Last week he also complained to the Commission that the SWA combination amounted to an illegal cartel, and that it would lead to an abuse of a dominant position.

He accuses BA - facing problems of expansion within the UK - of "entering into the deal to form a kind of monopoly outside the UK". He adds: "Their business plan envisages tripling the number of flights previously operated by Sabena so by the time that the deregulation comes into effect there will only be slots left in the middle of the night".

Mr Gutelman betrays his countrymen's growing sensitivity about the way in which large chunks of Belgian industry - the holding company Société Générale de Belgique, most of the insurance sector, and most recently the biggest textile company - are ending up in foreign hands. "Brussels will effectively become London's fourth airport", he says caustically.

Portuguese fear for gold placed with Drexel

By Patrick Blum in Lisbon

PORTUGAL'S central bank is facing the possible loss of $100m in gold bullion placed through a London affiliate of Drexel Burnham Lambert, the Wall Street investment bank that collapsed in February.

Mr Tavares Moreira, the Governor, was called to parliament yesterday to explain. The revelation about the bank's exposure has caused considerable controversy and embarrassment in Lisbon.

Newspapers have suggested that Mr Miguel Beleza, the new Finance Minister, holds some responsibility for the loss. He was formerly in charge of the central bank's gold and foreign exchange transactions.

Mr Moreira has dismissed these charges, however, and said in an interview that the bank was confident of recovering its investment.

"We are doing everything we can to recover the money. It will take some time, probably two or three years, but the likelihood of recovery is very high," he said.

The potential loss represented less than 0.5 per cent of the bank's reserves and it was "more sad than serious".

Central banks and financial institutions from other countries were also facing losses, but Portugal's had the largest exposure and it could not avoid public disclosure.

"We wanted to be on the creditors' committee, that's why we made our declaration. Other central banks have not done this," Mr Moreira said.

In the event, the bank was excluded by rules against the participation of foreign state institutions.

The Banco de Portugal's relationship with Drexel began in 1985. The gold was transferred as part of a "standard operation". Later, the bank failed to heed warning signs that Drexel could be facing difficulties.

"We should have acted earlier, but the company was an affiliate of Drexel and it was a member of the London bullion market association which comes under Bank of England supervision, so we thought it must be all right," said Mr Moreira.

Commission seeks longer drug patent protection

By Lucy Kellaway in Brussels

THE EUROPEAN Commission yesterday proposed that patent protection on European drugs should be doubled from about eight to 16 years to halt the decline in research and development spending and put the European system on a par with that in the US and Japan.

The move has been criticised by consumer groups for bending too far towards the industry, which has been lobbying strenuously for longer patents. The proposal would mean European drug companies are protected for two years more than their US counterparts, they say.

European drug patents run for 20 years, although effective protection has been gradually reduced to about eight years as drugs take longer to move from the laboratory to the market.

The Commission's proposals would allow member states to issue protection certificates of up to 10 years when the patent runs out, to give a total effective protection of 16 years.

The Commission is pressing member states for quick agreement for fear that individual countries will start enforcing their own systems to re-establish greater patent protection for their companies.

● New proposals were also put forward by the Commission yesterday for homeopathic medicines, which would require all products to be clearly labelled stating exactly what they are.

Mass-produced homeopathic medicines would have to carry an authorisation of their quality and harmlessness. In some cases their curative properties would also be tested.

Chief executives worry about health and family

By Simon Holberton

HAVING climbed to the top of the company, a quarter of Europe's chief executives find themselves thinking of quitting and doing something else, such as running their own business or starting a completely new career.

Europe's top executives are also concerned about their health; they fear heart disease and job burnout. Almost half believe that the demands their work places on their family life is an important source of stress from which they suffer, especially those chief executives younger than 50 years.

According to the Centre for Business Psychology, a joint venture between the Manchester School of Management and Coopers & Lybrand Deloitte, executives think pressures will grow during the 1990s.

In what they claim to be the first comprehensive "lifestyle" survey of European chief executives, nearly half the 118 chief executives surveyed in eight European countries said they thought stress would increase because of expected shortages among middle and senior management by 1992.

Despite the worries and the occasional longing for greener pastures, some 88 per cent of European chief executives expressed satisfaction with their jobs. More British chief executives appeared to be satisfied with their jobs (83 per cent) compared with a similar survey conducted in 1984.

Professor Cary Cooper, of the Manchester School of Management, said: "I am very surprised to find so many chief executives prepared to admit the stresses that they are currently experiencing, and how concerned they are about how their job is adversely affecting their family life. It is also disturbing to see that so many of the spouses of these captains of industry are so worried about the health and well being of their partners."

Amex Bank warns on global interest rates

By Andrew Marshall, Economics Staff

GERMAN unification is creating pressure for higher interest rates in the rest of the world, the Amex Bank review reported yesterday.

The article analyses the fall of the yen and the Tokyo stock market and the parallel rise in the D-Mark and the German stock market by reference to international capital flows.

The D-Mark has strengthened and German interest rates have risen with the prospect of unification, the report says.

The increase in interest rates goes beyond what would be expected from expectations of higher inflation. It also reflects "expectations of strong demand for credit as private investment picks up and the government deficit rises; and Bundesbank tightening to offset the economic stimulus".

Germany's current account surplus is set to slow, the review adds, as corporate demand for investment and the deficit rise.

Although there would still be a current account surplus, with some margin for export of savings, "net capital outflows will shrink because of the greater inward investment drawn by the attraction of relatively higher yields". This has put upward pressure on rates elsewhere; not just because of raised inflationary prospects, but because of expectations of pressure on savings.

This accounts for the corrections in equity markets in recent weeks – including the decline in the Tokyo stock market – as bond yields have risen at the expense of equities. The yen and the Tokyo stock market have also been weak because of the fall in Japan's current account surplus, the report says. But the surplus is expected to return, as Japanese investment slows and personal savings rise. The recent one point rise in the Japanese discount rate was inadequate to prop up the yen, it says, because it will not significantly change capital outflows from Japan.

Deadlock at Bulgaria poll talks

THE LATEST round of talks between Bulgaria's Communists and opposition leaders aimed at agreeing on a new election law ended in stalemate yesterday, Reuter reports from Sophia. "We seemed to have reached a consensus on the election system, but then the opposition at the last moment proposed we adopt a proportional system similar to that of West Germany," the Communist Party spokesman said.

Bulgaria, where Communists surrendered their power monopoly earlier this year, faces its first free elections in 40 years on June 10. The present series of talks which began on Monday was aimed at agreeing on a new law to elect a constitutional national assembly and President.

The Communists have proposed that half the members of the new parliament should be elected by a simple majority vote while the other half would be elected proportionally in which people would vote for a party rather than a person. Opposition groups want all members elected by voters opting for a party rather than a person.

Ecologists hope to profit from public dread of the 'dinosaurs'

By Kerin Hope in Athens

BY the usual standards of a Greek election campaign, which calls for colourful displays of party flags and candidates' rhetoric, the Ecologists are almost invisible.

Most of their Dr15m (£36,000) budget – the kind of money a wealthy conservative running in Athens might spend – is being used to print the party's programme and its ballot papers for the April 8 election.

Instead of local rallies, they staged a protest in the remote Pindos mountains in central Greece against a new power project.

"I'm not in the least politically minded, but I'm seriously worried about the wasteful use of resources in a country which could do so much better," says Prof Rigas Rigopoulos, a renewable energy expert running on the Ecologists' ticket.

It is only five months since Greece's first Green parliamentary deputy was elected – in the most recent general election last November – surprising Ecologist party organisers as much as the pundits. But the political wing of Greece's environmental movement is likely to reap even bigger benefits this time from the swing away from the three main parties shown in recent opinion polls.

The Ecologists is a loose and argumentative federation of about 100 environmentalist groups around the country and the party's awkward official title is Ecologists-Alternatives.

It should double its vote in next month's election. That would still make it only 1.5 per cent but it should mean three parliamentary seats, enough to block either the conservatives or a potential Socialist-Communist alliance from forming a government if the opinion polls are correct in forecasting another stalemate.

The party unites an unlikely range of tendencies, from activist naturalists to a vociferous transvestites' group in Athens. Their support is strongest among new voters and women.

They are considered a threat because they seem likely to capitalise on left-wing voters' dissatisfaction with the Communist-led Left Alliance. The Alliance infuriated many of its voters by joining the conservatives in a coalition government last June and has now alienated others by forming an electoral pact with the Socialists in five crucial constituencies.

The prevailing mood of impatience with traditional politicians, who have ignored pressing economic problems and most social issues during the past year of coalition, will also help. In cartoons and newspaper headlines, the ageing political leaders are being labelled "the dinosaurs". The key to the Ecologists' future will be their success in harnessing a growing demand for a "civil society" in which Greek politicians and civil servants become more accountable.

"Like the Socialists in the 1970s we've appeared to fill a gap that people are now aware of. They're fed up with the old-fashioned politics of patronage," says Mr Panayote Dimitras, a political scientist who is a member of the party praesidium, the Ecologists' name for the executive. Hopes that the Socialists would get rid of the traditional patron-client relationship between a deputy and his voters were quickly dashed when they came to power in 1981 and the party machine took over the parliamentarian's role in finding jobs and loans for supporters.

The Ecologists' platform calls for decentralisation on a scale that would reduce the population of Athens from 3.5m to 2m by early next century and replace cars with bicycles and trams to eliminate the *nefos* – the pollution cloud that hangs over Athens in still weather.

"We're not trying to become the Khmer Rouge forcing people out of the city, but you can't solve the pollution problem with short-term measures like traffic restrictions," says Mr Dimitris Papaioannou, an environmental engineer and parliamentary candidate.

Pollution is not the only headache for Ecologists in Athens. They hope to print their ballot forms on recycled paper but their plans may be dashed by the high cost of an imported commodity that is still in short supply.

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WORLD TRADE NEWS

Tokyo tax agency backs down on imported drink costs demand

JAPAN's national tax agency has backed down from a demand made last month that liquor importers provide detailed information on the costs and prices of each of their brands, following strong opposition from European drinks groups, Ian Rodger reports from Tokyo.

European companies feared the demand was part of a government-sponsored smear campaign in recent months to make importers the scapegoats for US complaints that the prices of many consumer goods in Japan are higher than elsewhere.

"We are extremely concerned about the way that the government has used information that we have provided in the past. Despite their protestations of confidentiality, we have found our information leaked to Japanese newspapers within a day or so," said Mr Mark Bedingham, senior managing director of Jardine Wines and Spirits and chairman of the liquor committee of the European Business Community (EBC) in Japan.

He and others believe the government has been overemphasising the role of importers in Japan's high prices because it does not want to tackle the more substantial but politically sensitive factors behind them, notably widespread pricing cartels and bloated distribution systems.

The row began late last month when the tax agency sent a letter to all liquor importers requesting detailed costs and prices on their brands within a week. It said the request was being made in the context of the government and the ruling Liberal Democratic Party seeking a better understanding of the reasons for differences in prices of consumer products in Japan and elsewhere.

In a letter querying the purpose of the request, Mr Luciano Cohen, chairman of the EBC, Mr Cohen said the quantity of highly confidential information requested was "unusual for a government agency from an OECD country". EBC members were "greatly concerned by the hostile and damaging environment being created in the national press for imported products resulting from unbalanced comparisons of international prices".

Mr Cohen said the cost of doing business was higher in Japan than elsewhere and emphasised that "consumers, not governments, should decide pricing."

Yesterday, Mr Yujin Kenai of the liquor section in the tax agency said, "If they say the information is too sensitive, that is okay. They can reply with a blank sheet. We have no intention of bullying those representative offices."

Pierre Bérégovoy: initiatives

France agrees Soviet trade debts delay

By William Dawkins in Paris

FRANCE has accepted the delay of nearly FFr1bn ($228.8m) worth of trade debts owed by the Soviet Union, subject to normal market conditions.

The agreement, struck by Mr Pierre Bérégovoy, the French Finance Minister and Mr Lev Voronine, vice president of the Soviet Council of Ministers, came at the end of an official visit to Moscow aimed at tackling barriers to Franco-Soviet trade. It is understood to be the third such delay agreed to by France since last November.

In Moscow Mr Bérégovoy also announced measures to help French businesses in the Soviet Union to convert rouble earnings into hard currency and launched a French-funded business training programme.

US and EC chips makers to co-operate

By Michael Skapinker

SEMATECH, the American semiconductor industry consortium, and Jessi, its European counterpart, have agreed to co-operate on two projects to counter Japanese dominance in the manufacture of computer chips.

The first project would look at the strengths of Japanese companies and the second would investigate the adoption of common semiconductor standards.

STRUCTURAL IMPEDIMENTS INITIATIVE

Japanese shape case for talks with US

By Robert Thomson in Tokyo

JAPANESE politicians were in a huddle yesterday to determine how much they can offer the US at next week's crucial Structural Impediments Initiative (SII) talks in Washington without alienating their traditional supporters at home.

There is the delicate problem of overhauling the Large-Scale Retail Store law, while maintaining the backing of small shopkeepers, who support the ruling Liberal Democratic Party and appreciate the law's ability to slow the opening of bigger stores.

On public works, Tokyo must decide if the US wants a specific figure for higher public works spending or will be satisfied with a promise to lift spending and a guarantee that details will be provided later.

The politicians' meetings follow the release of a survey by the Nihon Keizai Shimbun, the country's leading financial journal, suggesting that Japanese support the US-demanded structural reforms by 47.4 per cent to 39.5 per cent. Of the 10,000 people polled, 85.9 per cent thought that Japan should at least respond "favourably" to US demands.

When asked why they supported the SII demands, 51.7 per cent of respondents suggested that the issues relate to living standards in Japan, while 42.2 per cent wanted to safeguard the US-Japan relationship. Meanwhile, on the sensitive issue of agriculture reform, *50.7 per cent supported* rice imports under a quota system and only 30.1 per cent said that the ban on rice imports must not be lifted.

The responses suggest that even though many Japanese do not think SII will necessarily reduce the country's $49bn (£30.1bn) bilateral surplus with US, the present political huddle has an obligation to produce proposals acceptable to Washington, if not to ordinary Japanese.

Mr Toshiki Kaifu, the Prime Minister, has given party officials until tomorrow to finalise proposals for the start of the two-day meeting on Monday, which will be the last top-level gathering before the scheduled release of an SII interim report in the middle of next month.

A senior ministerial official involved in the discussions said yesterday that most politicians "understand the idea but not the details" of SII and that their concerns for domestic constituencies were balanced by bureaucrats' warnings on the international implications of the meeting.

On the Large-Scale Retail Store law, Japanese negotiators will apparently suggest that applications for new stores could be processed within a year, instead of the 10 years or more that approval now takes for some companies.

Mr Ryutaro Hashimoto, the Finance Minister, indicated yesterday that Japan would offer to increase public works spending, although he is resisting *US demands to name a specific figure.*

Japan zeroes in on Soviet markets

But wartime disputes still impede trade, writes Michiyo Nakamoto

JAPANESE businessmen, weary of trade friction with the US and local content rows with the EC, are turning an eye to the Soviet market. Industry leaders have been quick to set up trade missions and representatives from a wide variety of businesses are flying to the Soviet Union to observe market conditions.

The Soviet Union's domestic political problems are cause for some caution and businessmen still see formidable problems in doing business there as a result of incomplete economic reforms. In addition a long-standing dispute between the two nations concerning four northern Kurile Islands, captured by the Soviet Union at the end of the Second World War, has also hindered trade. But none of these difficulties has stopped Japanese companies from seeking out a wide range of opportunities in the Soviet market.

"Our clients ask us if we are going to do business with the Soviet Union and threaten to take their business elsewhere if we aren't," said an employee at a large trading house.

Trade between the two countries has surged since the early days of perestroika. According to Japan's Ministry of Finance, the total value of trade between Japan and the Soviet Union reached $6.09bn last year, up 43 per cent from $4.16bn in 1985, when President Gorbachev first launched his market-oriented reforms. Nevertheless, trade with the Soviet Union was still a paltry 1.2 per *cent of total Japanese trade* last year.

In the past several years Japanese-Soviet trade has undergone a major shift in emphasis. *The increase in the value of* trade last year was entirely due to a rise in imports of Soviet products. But the Japanese economy is gradually moving away from its dependence on heavy industries and therefore has less need to import Soviet raw materials.

There is an urgent need now in the Soviet Union to supply consumer goods and install equipment in factories to produce those goods. However, the Soviets are finding it difficult to channel their energy and funds into more large-scale projects. This change meant that last year exports from Japan fell to $3.08bn from $3.13bn in 1988.

Japanese manufacturers of consumer products and light plant equipment have been the major beneficiaries. According *to statistics compiled by the* Japan Association for Trade with the Soviet Union and Socialist Countries of Europe, food exports from Japan to the Soviet Union increased 199 per cent last year from a modest total of $2.3m to $7.1m.

There has been a flood of orders for detergents, soap, batteries and a wide range of electrical goods. The Soviet Union was the largest importer of Japanese colour television sets in January, according to the Electronic Industries Association of Japan. Last year, exports of video cassette recorders, records, tapes and electronic parts increased by more than 100 per cent.

Oki Electric, a leading maker of communications equipment, said orders for facsimile machines doubled in 1989. *Automobile exports surged 590* per cent from $2.7m to $18.5m. In addition the Soviet Union has been eager to set up joint venture plants for consumer durables.

Joint venture deals in the services sector are also increasing. There are more than 20 Japanese-Soviet joint projects, including several hotels and a car hire business.

Trade ties between the two nations extend to local governments and co-operative associations. The agricultural co-operatives federation in Hokkaido, Japan's northernmost island, is promoting food exports to the Soviet Union. Despite their interest in pursuing opportunities with the Soviet Union, Japanese businessmen see many problems in expanding trade and other projects much further. Many express caution and a hint of scepticism about the possibilities arising from recent economic reforms there. They also note that in many cases equipment that finds its way into the Soviet Union is left unused for lack of technicians or spare parts.

The greatest impediment to increased trade between Japan and the Soviet Union, however, may be the restrictions arising from their political relationship. Japan and the Soviet Union have still not signed a peace treaty. The question of ownership of the Kurile Islands, which is claimed by Japan but occupied by the Soviet Union, has been a particularly thorny problem.

There is no treaty between Japan and the Soviet Union for *economic assistance*, no long-term economic programmes and no investment protection agreement between the two countries. The number of Soviet businessmen allowed to reside in Japan is restricted.

Nonetheless, the chances for a political solution to the Kurile Islands issue are starting to look better. A visit by Mr Shintaro Abe, a leading member of the ruling Liberal Democratic Party and a contender for the premiership, has opened the way for a new initiative to improve relations with the Soviet Union.

Most of the Japanese government restrictions on trade can easily be removed as soon as the political environment changes for the better. If that happens, says Mr Tetsuo Sato, chairman of the Japan-USSR *Trade Association*, "the possibilities are immense."

Mexico and US cool over quick regional free trade agreement

By Richard Johns in Mexico City and Nancy Dunne in Washington

MEXICO and the US have both expressed reservations about moves to tighten their trade links with a view to the eventual formation of a North American Free Trade Area (Nafta).

Mexico's position on trade relations with the US remains that it seeks greater access to the market of its main trading partner through negotiating sectoral agreements.

A spokesman for the US Trade Representative said senior Mexican officials had asked US officials in February to investigate the possibility of negotiating a free trade agreement as applied to US law.

President Bush thinks it "a good idea," he said, but one which would take "a long time" and might not even happen under a Bush presidency. The Trade Representative's office still regards the Gatt Uruguay Round on multilateral trade liberalisation as its priority.

Mr Kika De La Garza, chairman of the House Agriculture Committee and a longtime proponent of closer US-Mexican relations, dismissed the notion of a Nafta "in this century. People forget that we started with the Canadian FTA 25 years ago with a sectoral agreement on automobiles."

He expects a number of sectoral agreements, in areas like steel, cars and cement, to be concluded during this decade but no FTA "until the Mexican economy develops to a comparable level." Mexico, has already finalised accords with the US, increasing steel and textile quotas, and is to begin talks on petrochemicals and farm products.

The Mexican Embassy in Washington issued a circumspect statement on Tuesday in response to a report that talks had already taken place involving Mexico joining Nafta and that an announcement would be made when President Carlos Salinas de Gortari visits Washington in June.

It mentioned the accord reached last October doubling the steel quota under the voluntary restraint agreement from 400,000 to 800,000 tonnes a year for a two-and-a-half year period and another last month eliminating restrictions on 52 categories up until the end of 1991. Nevertheless, having fulfilled its commitments under Gatt (which it joined in 1986) Mexico continues to complain about obstacles facing its exports to the US.

One problem is avocados which are completely barred from the US market on the grounds – strenuously disputed by Mexico which blames protectionist lobbying by California producers – that all its production is alleged to be affected by seed weevils and fruit flies. Poultry exports are similarly prevented because all its flocks are said to suffer from "Newcastle's disease".

Mexico's exports to the US in 1989 were valued at $27.18bn and its imports from it at $24.96bn, according to the statistics of the US Department of Commerce.

Nuclear trigger plot latest in secret Iraqi battle to obtain arms

By Victor Mallet, Middle East Correspondent

SINCE the end of the Gulf War against Iran in 1988, Iraq has consistently surprised Western and Israeli intelligence agencies with the sophistication of its arms industry.

Yesterday's uncovering of a plot to smuggle triggering equipment for nuclear weapons to Baghdad is only the latest instalment in a largely secret struggle between Iraqi military procurement agents and Western governments anxious to stop the spread of nuclear and chemical weapons technology to the Third World.

Iraq's enmity towards Iran and its hatred of Israel, as well its nuclear ambitions and its proven ability to produce missiles for the delivery of large warheads, make it a particularly dangerous customer.

Far from scaling down Iraq's military research and development after the Gulf War ceasefire, the autocratic President Saddam Hussein has redoubled his efforts to make the country into a regional superpower. One of his sons-in-law, Mr Hussein Kamel, has been given wide powers as the Minister of Industry and Military Production.

At successive arms trade fairs in Baghdad Western military attachés have been astonished by Iraq's achievements, which include extending the range of Soviet Scud-B missiles and the development of a home-made Awacs-style early-warning aircraft. In December last year Iraq tested its first space rocket, which could ultimately be used as a ballistic missile.

While Iraq is believed to be some years from developing a nuclear device, and is having difficulties in obtaining the sophisticated gyroscopic guidance sets it needs to make its missiles accurate, it showed no compunction about using chemical weapons against Iran and its own Kurdish population.

Israeli aircraft destroyed an unfinished nuclear plant in Iraq in 1981, but Iraq is said to have enlisted Chinese help to continue its nuclear research and may have recovered some of the enriched uranium from the remains of the reactor.

Israeli officials deny any involvement in a mysterious explosion at a secret military production complex last year in which hundreds of Egyptian and Iraqi workers are thought to have died. Mr Farzad Bazoft, the Iranian-born journalist working for the British Observer newspaper, was hanged as a spy after he tried to investigate the blast.

As adherents to the Missile Technology Control Regime, the US, Britain and their allies have sought to prevent the proliferation of delivery systems for nuclear and chemical warheads. But at the same time Western countries – Britain and the US in particular in recent years – have granted hundreds of millions of dollars in credits to Iraq to bolster their exports.

The integration of Iraqi military and civilian industry makes it all the easier for Western companies and trade ministries to turn a blind eye to the fact that their equipment – computerised machine tools, for example – is being used to promote Iraq's ominous military industrialisation drive.

It emerged last year that the Atlanta branch of Banca Nazionale del Lavoro, a leading Italian bank, had granted $3bn in unauthorised credits for exports to Iraq, some of which helped to fund an Iraqi shopping list of equipment for the Condor 2 ballistic missile programme. Iraq has established a network of freelance agents and front companies around the world to procure military technology, often within the law.

Western governments and Israel will be hoping that yesterday's events in London mark an important setback for President Saddam's ambitions.

Tokyo stock and currency markets battered

By Robin Pauley, Asia Editor

TOKYO markets took another battering yesterday with the yen continuing to devalue against the US dollar and the equity market returning to its slide after a brief pause for breath.

The 225-share Nikkei index lost a a further 562.39 points, or 1.77 per cent to close at 31,263.57 after shedding a bare 14.53 points on Tuesday. The dollar closed nearly Y1 above Tuesday's New York close, trading above Y158 for the first time since January 1987, after persistent demand for the newly-fashionable US currency neutralised attempts by Japan's central banks to stabilise the yen.

Mr Yasushi Mieno, governor of the Bank of Japan, insisted in Tokyo that accord on currency markets between Japan and the US was not slackening and that Japan, in co-operation agreed with other leading nations, would continue to intervene strongly in the currency markets.

The bank backed his words with intervention in morning and afternoon trading but the only result was that the decline in the yen was less than would otherwise have been the case. Sentiment against the yen could not be reversed.

The share market caught the same cold. A senior securities trader was quoted as saying: "Whether the yen is at 158 or 160, it's pretty much the same psychologically. The market is in a fix." Another added: "It is impossible to see the bottom of the market right now."

The continuing slide in the Tokyo markets comes in spite of weekend talks between the US and Japanese finance ministers aimed at inducing some stability into the international financial system.

No new initiatives on interest rates or exchange market intervention were taken at the meeting in Los Angeles between Mr Nicholas Brady, US Treasury Secretary, and Mr Ryutaro Hashimoto, Japan's Finance Minister. But they did reaffirm their commitment to economic policy co-ordination, including co-operation in exchange markets.

Mr Hashimoto raised Japan's concerns about the weakness of the yen and the desire for lower US interest rates. The main US concern was to make sure the system remained stable.

The state of the Japanese markets will be an important focus of attention at the next meeting of the Group of Seven finance ministers and central bank governors on Saturday next week when strengthening the policy co-ordination process is certain to have an added urgency.

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Britain anxious to salvage relations with Baghdad

By Edward Mortimer

BRITISH officials were yesterday struggling to avoid further damage to Anglo-Iraqi relations after the arrest and deportation of the Iraqi Airways manager in London for involvement in an illegal attempt to export nuclear trigger devices from the UK.

Mr Douglas Hurd, the Foreign Secretary, had resisted pressure to break diplomatic relations or withdraw trade credits from Iraq earlier this month after the hanging in Baghdad of Mr Farzad Bazoft, an Iranian-born journalist working for the Observer newspaper, who was accused of espionage. He confined his reaction to recalling the British ambassador, Mr Harold Walker, for consultations, and to sending home eight Iraqis who were receiving military training at Sandhurst and Portsmouth. Further action, Mr Hurd said, would damage British interests without doing anything to improve the situation in Iraq.

Mr Walker, who is still in Britain, is unlikely to return to Baghdad in the near future. But Mr Azmi Shafiq al-Salihi, the Iraqi ambassador in London, was told yesterday by Mr Roger Tomkys, a senior Foreign Office official, that the timing of yesterday's arrests was quite unconnected with the Bazoft affair, under which Britain wished as far as possible to "draw a line."

A memorial service was held for Mr Bazoft in London yesterday, attended by 250 journalists.

The problem for Britain is how to deal with the three people arrested yesterday who were not deported. One who was to have been deported could not be because he had British as well as Iraqi nationality. The other two are believed to be Cypriot and Lebanese. All can no doubt be charged with offences under British law, but it would not be out of character for the Iraqi regime to react by arresting and charging British nationals living in Iraq. (There are more than 2,000 of them, mainly businessmen and their families.)

One British businessman, Mr Ian Richter, has been serving a life sentence for alleged corruption since 1986, after a perfunctory trial; and Mrs Daphne Parish, a British nurse, was given a 15-year sentence for helping Mr Bazoft to reach an Iraqi military plant where he tried to investigate an explosion.

Iraqi ambassador Azmi Shafiq Al-Salihi outside his embassy

Britain also has a significant economic stake in maintaining good relations with Iraq. UK exports there last year were valued at £450m (machinery and pharmaceuticals being the largest items). However, this year's allocation of credit from the Export Credit Guarantee Department was reduced to from £340m to £250m, mainly because Iraq is having increasing difficulty in servicing its estimated $35bn foreign debt owed to non-Arab creditors.

Iraq has the second-largest known oil reserves in the Middle East, but ran up enormous debts, mainly to other Arab oil-producing countries, during the eight-year war with Iran which ended with a ceasefire in 1988 (though peace negotiations have since stalled).

Among British companies most heavily involved in Iraq is Northern Engineering Industries, the Newcastle-based engineering company taken over by Rolls-Royce last year. It won a £75m contract in 1988 to supply and instal four 350 MW turbine generators for a new oil-fired power station at Al-Shemal, 250 miles north of Baghdad.

Complex, delicate technology of a modern nuclear bomb

By David White and David Fishlock

IT WAS not immediately clear yesterday what the devices seized at Heathrow Airport and described as "nuclear triggers" consisted of. But the electronic technology for setting off the detonation process of a modern nuclear warhead is extremely delicate and complex, and is believed to be held only by the established nuclear powers.

The seized equipment, which experts thought might have included capacitors for storing an electric charge, was in transit from the US to Iraq.

In the earliest type of uranium bomb, such as the one used on Hiroshima in 1945, detonation is relatively simple: a high-explosive charge rams two pieces of uranium together so as to achieve the "critical mass" needed for a nuclear explosion.

More modern warheads, however, use an implosion method which requires an extremely accurate and simultaneous triggering process. The dense mass required is achieved by setting off a series of high-explosive "lenses" around the plutonium core. If these do not go off precisely together, and symmetrically, there is no nuclear explosion.

British experts said that the mechanisms for US nuclear weapons have been developed by Sandia Laboratories, based at Albuquerque, New Mexico.

It is believed that the corresponding equipment for British nuclear warheads, including development work for the Trident programme which relies on a US missile, is done at the Atomic Weapons Establishment based at Aldermaston, Berkshire.

While Iraq is widely believed to have a nuclear weapon programme, opinions vary as to how close it is to achieving a warhead capacity. There were unofficial Israeli allegations last year that Iraq was trying to assemble a warhead with uranium left over from its Osirak reactor, destroyed by Israel in 1981. However, the International Atomic Energy Authority said its inspectors had found no evidence that enriched uranium was being diverted from civil programmes.

The successful test launching in December of a three-stage satellite-carrying rocket is seen by experts as demonstrating Iraq's ability to produce delivery vehicles for nuclear weapons with a range of up to 2,000 kilometres.

However, it has been clear that Iraq has faced increasing difficulty obtaining sensitive weapon materials. An alleged attempt to export carbon materials for rockets to Egypt and Iraq was foiled in the US last year.

Even though nuclear weapons technology is well understood after 45 years, assembly of warheads requires more than a team of competent scientists. It needs scarce commodities other the fissile material. A warhead consists of about 2,000 separate and often very precise parts. In the US they all come together in a single factory at Amarillo, Texas, known as the Pantex plant, the assembly line for nuclear warheads. Pantex also dismantles old warheads.

Before a warhead goes into production it is preceded by about seven years of design, development, testing and production engineering. The US industry has capacity for making, modifying and retiring warheads at the rate of between 3,000 and 4,000 a year. It consists of 19 separate facilities, owned by the US Government but operated under contract. Over 60 US contractors, including several universities, are involved in nuclear weapons-related work.

Sandia co-operates with the country's two design laboratories in engineering the warheads, including all non-nuclear aspects such as the electronics. The 2,000 parts of a typical nuclear warhead are made into sub-assemblies by seven prime contractors.

US missionary murdered

By Lara Marlowe in West Beirut

AN American evangelical Christian missionary, Mr William Robinson, was murdered at his home in the southern Lebanese village of Rashaya Fakhar on Tuesday night. The Lebanese Communist Party said it was responsible.

For the past two months, residents of the Arkoub region near Mount Hermon had been appealing to Lebanese and United Nations officials to expel Mr Robinson, whom they accused of establishing the first Israeli settlement in southern Lebanon.

The Israelis denied that there were any plans for a settlement in southern Lebanon. Rashaya Fakhar is only eight miles from the Israeli border and falls within Israel's self-declared "security zone" which is policed by the Israeli-backed Lebanese Christian militia, the South Lebanon Army.

Mr Robinson's widow Barbara said yesterday she was tied to a chair while her husband was shot in the head by three gunmen in the presence of their four children. Mr Robinson had established a home for handicapped children.

China's businessmen hit out at austerity policy

By Colina MacDougall

CHINA'S entrepreneurs have sharply criticised Peking's austerity programme and the freeze on price reform at the National People's Congress, the normally rubber-stamp parliament. The policy, enforced since autumn 1988 to bring down inflation, has plunged Chinese business almost into stagnation which only now is causing the leadership serious concern.

Until this meeting, the Congress session had apparently accepted the hardline leadership's restrictive policies. The grievances now expressed by Chinese managers are a mark of general alarm at the way the economy has slumped – and their businesses with it.

Xing Qifu, manager of the Tianjin Flying Pigeon bicycle plant, said his factory now produced 20,000 bicycles a day, but because he could not sell them he had huge overstocking problems, the Hong Kong Ming Bao newspaper reported. According to the Peking-based China News Service, more than 10m bicycles are stuck in shops all over China because factories are churning out too many.

Xing also attacked the government for postponing price reform, earlier placed on the agenda by Zhao Ziyang, the party leader sacked after the demonstrations last year in Peking ended in bloodshed. Xing said the price of a Flying Pigeon bicycle had only risen from Yuan 169 to Yuan 195 in 40 years, while raw materials costs had soared.

Xing also complained about the damaging "double-track" price system, devised to encourage enterprises to produce above-quota surpluses which they could sell at a free market price. The system damages the efficient and favours those with friends who can supply fixed price materials.

● China and the Soviet Union are expected to agree to reduce troop levels along their disputed border during a visit to Moscow by Li Peng, China's Premier, next month, Reuter reports from Peking.

Qian Qichen, the Foreign Minister, said there were good prospects for development of Sino-Soviet relations and he expected an economic co-operation agreement.

Violence mars Zimbabwe poll

By Julian Borger in Mutare, Eastern Zimbabwe

ZIMBABWE'S voters went to the polls yesterday following a week of violence which had marred the presidential and parliamentary campaigns.

The civil rights group, the Catholic Commission for Justice and Peace, warned on Tuesday that the level of violence in the run-up to the polls "is already calling into question the freeness and fairness of the election."

In the eastern border town of Mutare, the stronghold of Mr Edgar Tekere, a former cabinet minister, and his new opposition Zimbabwe Unity Movement (Zum), there was a high turnout. In other parts of the country, however, turnout ranged from low to moderate. Voting ends today.

No one outside Zum party headquarters believes the ruling Zimbabe African National Union, led by President Robert Mugabe, is going to lose this election. But if the opposition does well in Mutare, and the surrounding province of Manicaland, it will be harder for Mr Mugabe to carry out his oft-stated intention of establishing a one-party state.

Tear gas ends Abidjan protest

SOLDIERS used tear gas to disperse more than 1,000 protesters in the centre of Abidjan yesterday as illegal demonstrations brought the Ivory Coast capital to a standstill, Mark Huband reports from Abidjan.

Demonstrators filled the city's business centre for the first time since protests erupted six weeks' ago. They were demanding the resignation of President Felix Houphouet-Boigny. The protest came hours after the arrest of Mr Assoa Adou, secretary general of the Union of Senior Health Officers late on Monday night. Mr Adou is accused of organising a strike of doctors and health workers which began as a 48-hour stoppage on Monday but has now been extended indefinitely.

Yesterday an estimated 1,000 people gathered in support of a group of women who staged a sit-down protest on Abidjan's main street, halting traffic. The woman were calling for the reversal of cuts in public sector salaries of up to 40 per cent.

The measure, which comes into affect on April 1, is intended to fill a $390m financing gap in the 1990 budget.

Tanzania invites foreign investors

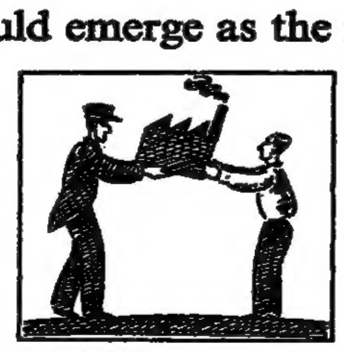
Tanzania is set to introduce more liberal investment laws aimed at revitalising the country's stagnant economy, despite opposition from some socialist hardliners, Reuter reports from Dar es Salaam.

A code, giving foreign and local investors new tax incentives and guarantees on their investments, has already been approved by the ruling Chama Cha Mapinduzi party. It is due to go before Tanzania's one-party parliament in April.

New Zealand accelerates the sell-off of state assets

Privatisation could emerge as the main issue in this year's general election, writes Terry Hall

THE Labour Government in New Zealand this week signalled an intensification of its privatisation programme with the prospect that billions of dollars worth of state assets will be sold over the coming months. This week's statement – a pre-budget document ostensibly designed to reassure business that the Government remained true to the principles it espoused before the 1987 elections – included a lengthy list of companies which will be privatised.



UNBUNDLING THE STATE

The most controversial was the sale of Telecom. This is expected to be sold shortly to a consortium rumoured to consist of British, Australian, American and Japanese companies, with some New Zealand equity. The Telecom sale, which is expected to raise about $3bn, has aroused a storm of public protest, as the Government in 1987 had promised that it would not be sold.

The statement also signalled the sale of the national railways, including its ferry network and national bus company. All port companies (at present controlled by local councils) and the three international airports will also be privatised.

However the statement did not mention plans to expropriate and sell the electricity supply authorities, in spite of a leaked Treasury report which recommended that each user be given a free share, which they could then sell to private local or foreign companies.

Other entities to be sold are the state forests, the tourist corporation's prestige hotels, the state insurance office, the tourist department's national and international travel offices and possibly Coalcorp, the former state coal mining operation. Being readied for sale are Landcorp, which controls most government buildings and land holdings, New Zealand Post and Electricorp, which operates all power stations and the national grid. For technical, commercial and monopoly reasons, these sales are being delayed.

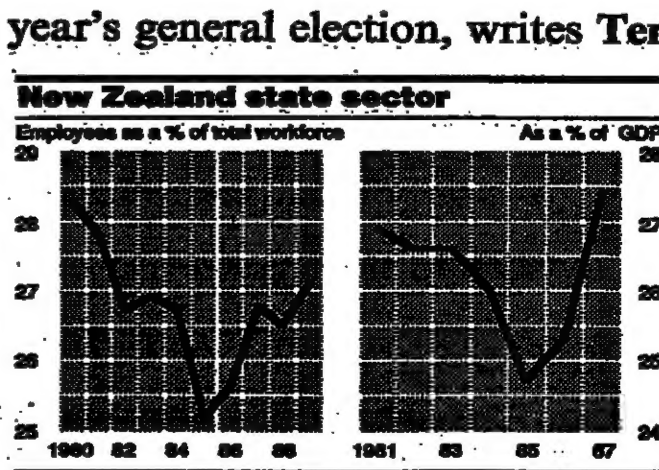
The Government has moved quickly over the past three years to dispose of state assets. Most sales have been controversial. Critics have argued that companies such as the Rural Bank, Petrocorp and Fletcher Challenge, the sales of which realised about $2.6bn, were priced too low.

Other disposals included Postbank (the former post office savings bank), which was sold to the ANZ bank for $665m. More than $1bn was raised through sales of the Shipping Corporation, the Bank of New Zealand, New Zealand Steel, Government Print, the DFC, Health Computing Services, Communicate New Zealand (government publicity services), and the national film unit.

Most of the sales have been opposed by public service unions, whose membership rolls were drastically reduced as the former government departments were "corporatised" to make them more attractive to investors. In addition opinion polls indicate widespread public dissatisfaction with many of the sales.

The intensification of the programme six months away from an election has contributed to Labour's slide in the polls. But there is a belief among key cabinet ministers, supported by Treasury advisers, that the Government has no role in the private sector. The Treasury has not denied

New Zealand state sector



reports that officials are assisting Mr Richard Prebble, the state-owned enterprises minister, in accelerating the programme because of a perception that the opposition National Party, which has been critical of the programme, may win October's elections.

The National Party has suggested that it will force some international companies to sell back "strategic" holdings. It has also spoken of a ceiling of 24.9 per cent for foreign holdings in key privatised companies.

However, it would be difficult for it to enforce this policy if it became government.

There is also strong opposition to privatisation among left-wing Labour MPs. However wavering ministers and backbenchers are outnumbered by those determined to continue the fast pace of reform begun by the Mr Roger Douglas, former Finance Minister.

Mr Prebble's controversial handling of the programme – in particular the sale of Petrocorp, which was to have been sold to British Gas but which at the last minute was sold to Fletcher Challenge - was a factor in his sacking by Mr Lange. Mr Prebble was reappointed this year by Mr Geoffrey Palmer, the new Prime Minister, apparently to speed up the programme.

New Zealand voters have been assured that the sales were essential to reduce overseas debt. More recently revenue has been used to cut internal debt, and in a further switch the Government said this week that some $300m of the money raised by the Telecom sale will be used to fund "capital works" in the health and education areas. The opposition says the money will be used to buy votes.

The number of workers employed in the state sector was reduced sharply as a result of the initial corporatisation programme, under which the former government departments were readied for sale. In the year to March 1980, 892,000 or 28.3 per cent of the workforce, were employed in the state sector.

Numbers peaked at 910,000 in 1986 and dropped to 818,00 by March 1989. Corporatisation, however, brought efficiency gains and financial benefits as the restructured organisations, with lower debt, began producing substantial dividends to government coffers.

But has privatisation been a complete success? The answer is probably no. It has provoked endless controversy and is developing into the major election issue this year.

This is the fifth article in a series on privatisation. Previous articles appeared on the foreign pages on February 28, March 6, 13 and 23.

Brazil minister to seek broad debt revision

By John Barham in São Paulo

MS ZELIA Cardoso de Mello, Brazil's Economy Minister, is to meet the country's creditors and US government officials this weekend for the first time since the new government took office on March 15. The minister and all her senior staff are to fly to Montreal for the annual general meeting of the Inter-American Development Bank, to begin on Sunday.

President Fernando Collor de Mello said at a news conference late on Tuesday that he had told the minister to explain Brazil's radical anti-inflation policies and "initiate contacts for a broad renegotiation of the foreign debt."

Mr Collor promised last week that Brazil would not pay more than $5bn a year to service the $115bn foreign debt. Brazil stopped paying all interest and principal last September and has accumulated arrears of $5.5bn. Dividends, royalties and other payments have also been stopped.

Ms Cardoso de Mello has yet to designate a chief debt negotiator, usually the Central Bank president. Mr Ibrahim Eris, now the bank president, Mr Sérgio Nascimento, a senior adviser, Mr Clodoaldo Hugueney, Secretary for International Affairs and Mr Marcos Gianetti Fonseca, Planning Secretary, will all accompany her to Montreal.

Mr Collor hopes to capitalise on the success of his tough domestic policies to demand heavy concessions from creditors abroad: "I am pleasantly surprised by the positive reaction abroad to our economic stabilisation plan. It is a sign that we will meet a favourable environment there.

"What we want is to sit at the table with no unilateral position. The debt is absolutely unpayable. It is fundamental that the creditor banks understand it is much better to have a debtor which can pay interest, not these abusive, extortionate [interest rates]," the president said.

Ms Cardoso de Mello is to return to Brazil via Washington, where she is to meet Mr James Baker, US Secretary of State, and Mrs Carla Hills, US Special Trade Representative.

Disarming of contras tops summit agenda

By Tim Coone in Managua

FIVE Central American presidents are to give priority to disarming the US-backed Nicaraguan contra rebels, at a summit next week in Nicaragua.

This will be the first regional summit to be held in Nicaragua, and follows two years of political and diplomatic efforts to bring peace to the region.

Last Friday, contra field commanders agreed to begin demobilising their 12,000-strong army based in Honduras, but doubts remain over the timetable.

The outgoing Nicaraguan government of President Daniel Ortega and the incoming one of President-elect Violeta Chamorro agreed on Tuesday that the contras must be demobilised by April 25, the date of Mrs Chamorro's investiture.

However, Commander Franklin, one of the main contra leaders, said this week that his troops will remain with their weapons within UN-supervised "security zones" inside Nicaragua until after Mrs Chamorro has taken office.

The UN Security Council has agreed to send 800 Venezuelan peace-keeping troops to Nicaragua to help a 700-strong UN contingent already in Central America.

Next week, Central American foreign ministers are to meet representatives of the European Community in Dublin to discuss a $250m aid package to revitalise trade in Central America.

Argentina alters sale conditions on telecoms

By Gary Mead in Buenos Aires

THE ARGENTINE government is to alter the privatisation terms of its telecommunications company, ENTel. The changes will follow political pressure in Congress, the greatest coming from among the majority Peronists.

The altered sale conditions of ENTel (which registered a 1989 deficit equivalent to $1.46bn) focus on two areas: the amount of foreign debt to be exchanged for equity in the sale, and the level of annual profit to be guaranteed by the state once the company is in private hands.

The 60 per cent of ENTel for sale will now offer potential buyers a reduced guaranteed profit of 16 per cent on $1.9bn, (the purchase price fixed), not 16 per cent on $3.5bn (ENTel's net asset value as fixed by the government) as originally stated.

ENTel, which is to be divided into two companies (north and south), thus offers a guaranteed profit of some $200m a year less than planned.

Also, the amount of foreign debt to be exchanged is now given a fixed minimum. The buyers of the two ENTel companies are being asked for a total $214m in cash and $380m to purchase various Argentine government bonds.

The government had not previously made clear that there was a fixed minimum debt-equity exchange required.

However, the new terms fix the minimum acceptable debt exchange offer at $3.5bn. The new terms make clear that operators which offer the greatest quantity of debt exchange, potentially in excess of the fixed minimum, will be successful in their bids, all else being equal.

The late alterations to ENTel's conditions of sale – the final adjudication of offers is set for June 28 – are bound to alarm the five foreign operators which have expressed interest. The Italian company STET, Telefónica of Spain, Bell South of the US, Nynex of the US, and Cable and Wireless of the UK are likely to reconsider their position.

Fear pervades Shining Path stronghold

Peru's most troubled region prepares for pre-election violence, writes Sally Bowen

A general strike called yesterday throughout Peru by the Maoist Sendero Luminoso guerrilla movement stranded commuters in the capital Lima as transport operators stayed home

THE governing party candidate is holed up in the state tourist hotel with two Uzi-toting bodyguards in attendance. Five peasants from a community self-defence group wait outside his bedroom. They are there to beg for guns to protect themselves from guerrilla violence. This is how Peru's most troubled departmental capital, Ayacucho, is being forced to conduct the campaign for the April 8 presidential and parliamentary elections.

The mountain town, 200 miles south-east of Lima, appears calm. Full-skirted, behatted Indian women cook on primus stoves around the central square while a minor presidential candidate harangues the small crowd.

The last assassination by the Sendero Luminoso (Shining Path) guerrilla group within the city limits – of a candidate of the conservative Democratic Front coalition – occurred on March 3.

"The calm is only apparent," says the local mayor. "I can absolutely assure you that there will be serious attempts to stop the elections." The Ayacucho police chief agrees.

The town, famous as the final battleground for independence against the Spanish in 1824, has recently acquired a more notorious claim to international renown.

In 1980 a Marxist philosophy professor, Mr Abimael Guzman, used Ayacucho to launch his Maoist Shining Path revolution. Since then violence has stalked the department.

Of the 1,636 killings officially attributed to Sendero throughout Peru last year, over a third took place in Ayacucho department – 358 of the victims were peasants. Sendero's activities over the past decade have spread to neighbouring departments as well as the capital, Lima. Nationwide last year 3,198 persons died from political violence, a 61 per cent increase on 1988.

Sendero violence has forced many peasant farmers to abandon the countryside for the relative safety of Ayacucho, doubling the town's population in under a decade.

The destruction of a nearby government training farm (originally the property of Abimael Guzman's brother-in-law), testifies to the guerrillas' hostility to progress and authority. The main buildings were dynamited and a burned-out tractor and vehicle lie in the courtyard.

A lone family struggles to scratch a living from the once fertile land. The mother wept as she recounted the most recent guerrilla attack: "I am afraid. I want to leave but there is nowhere to go. Now the army want us to join the rondas."

Rondas are peasant self-defence groups originally used as protection against rustlers. Now they guard against Sendero. An Ayacucho deputy, Mr Alberto Valencia, from President Alan Garcia's American Popular Revolutionary Alliance (Apra), favours arming the ronderos with modern weapons. These would replace the motley home-made arsenal currently in use, including guns made from pipes, and improvised bayonets and lances.

Mr Valencia is critical of his own party's lack of commitment to the struggle against Sendero. He believes that the Democratic Front of Mr Mario Vargas Llosa will arm the ronderos if it wins the elections.

"At last the realisation is dawning in Peru that the only army really disposed to fight Sendero, and without pay, is the peasants," he said.

But for the rural poor, the price is high. Sendero, with the superior firepower of automatic rifles stolen in attacks on army and police patrols, regularly wipes out small rondero bands in Ayacucho's remote highland glens. Bodies are frequently dismembered. News of massacres often takes several days to reach such authorities as remain.

Army tactics are changing, however. In recent weeks the army has been conducting censuses in as many as 150 villages. The aim is to recruit villagers to help army patrols to identify and kill Sendero activists. The civilian conscripts are provided with guns and the black ski-type masks used by the army to avoid identification and retribution.

For many of Ayacucho's rural population the army has become as feared as Sendero. Allegations of peasant massacres by the army have continued under President Garcia and reports of disappearances of "presumed terrorists" are commonplace.

In Ayacucho, Mrs Angelica Mendoza runs a soup kitchen for the orphaned children of disappeared parents. She has records of 5,300 people detained between 1980 and 1989 in the area. She said last year's total was some 300, of whom 270 "reappeared," although many had been tortured; the other 30 are unaccounted for.

Mrs Mendoza said: "People can tell the difference between the military and Sendero. They know when the hooded figures entering their houses at night are soldiers. Sendero come in and kill. They don't take people away and torture them."

In this atmosphere, it is not surprising that most local residents consider the upcoming elections irrelevant. The political-military command of this emergency zone insists that voting for president, congress and, for the first time ever, regional deputies, will be normal. But it seems likely that the pattern of the November municipal elections, when over two-thirds of Ayacucho's intimidated voters spoiled their ballots, will be repeated.

In the queue for a flight out, a middle-aged woman reported being stopped before dawn on the way to the airport by hooded Senderistas. They searched the taxi and examined the occupants' documents. They let her go unmolested, foregoing their demands for contributions to revolutionary funds since she was travelling to Lima for a urgent eye operation. Their parting shot: "Perhaps another time, señora".

Mexico to boost in-bond industry through tax regime changes

CHANGES in the tax regime governing Mexico's maquiladora (in-bond) industry, including a 4 per cent cut in corporation tax from 40 to 36 per cent, will be be announced soon by Mr Pedro Aspe, Finance Minister, Richard Johns reports from Mexico City.

Also, all Mexican sales to maquiladora industries will be exempted from valued-added tax – an incentive to national in-put.

The fiscal changes follow provisions of a decree on the industry, issued in late-December, by which maquiladoras can sell to the domestic market goods worth up to 50 per cent of the value of their exports. Other incentives were given to increase local content.

The changes come against a forecast growth of 13-15 per cent in the maquiladora sector this year and a projected 10 per cent rise in foreign exchange earnings to $3.1 bn.

The industry, whereby components and raw materials are imported from the US tax-free and finished goods are re-exported with duty paid only on the added value, is the country's second biggest foreign exchange earner.

According to the American Chamber of Commerce here, 350 new plants are likely to be established in the course of the year. It also expects that the value of Mexican input, which is only 1.7 per cent of turnover, will rise by $20m to $175m.

In mid-1989 the number of maquiladora plants operating in Mexico was 1,674 – up 18 per cent on the previous year. During January-September 1989, foreign earnings from the sector were $2.2bn – a 32 per cent increase over the equivalent period of 1988, compared with $2bn tourism receipts.

Tokyo stock and currency markets battered

AMERICAN NEWS

US Energy Department drops role as nuclear monitor

By Anthony Harris in Washington

THE US DEPARTMENT of Energy is to give up responsibility for monitoring the safety of its nuclear plants, its Secretary, Mr James Watkins, announced late on Tuesday.

The Department is responsible for a major part of US weapons production and is engaged in a massive clean-up of hazardous facilities, estimated to cost more than $150bn over the next 10 years.

Long-standing suspicions in Congress and among labour unions that the Department routinely covers up adviser findings were recently inflamed by an allegation by a health researcher that he was asked to water down a report showing unusually high cancer levels at the weapons plant at Rocky Flats, Colorado.

This allegation is being investigated by the Department's inspector-general and is not officially admitted. But Mr Watkins decided to transfer his health research responsibilities to another department following the report of an expert panel.

Estimate of real GNP revised

By Anthony Harris

THE US Census Bureau has slightly revised its estimate of real GNP in the final quarter of 1989, to show growth over the third quarter at an annual rate of 1.1 per cent, against a previously estimated 0.9 per cent annual rate.

The revision resulted from small upward changes in estimates for sales in some categories, notably computers and industrial plant, and revised inventory estimates.

The chairman of the Council of Economic Advisers, Mr Michael Boskin, said the figures showed that the economy had performed "more or less as expected."

Troubled Haiti gets a chance to try again

Canute James examines President Pascal-Trouillot's opportunity to change history

Mrs. Ertha Pascal-Trouillot, Haiti's interim president, has an opportunity of writing herself into the often troubled and traumatic history of her country. She can do so, however, only if she is left alone by Haiti's army and assorted armed groups and if she is given help by foreign friends and neighbours.

Mrs Pascal-Trouillot, who was put in charge of the government earlier this month after the military leader was chased from the country by a wave of popular protest, has one task. In the next few months she has to guide the Caribbean nation of six million people to elections, and to oversee the transfer of authority to what would be Haiti's first meaningful elected administration in 35 years dominated by civilian and military dictatorships.

"My modest person has been chosen to guide, for the moment, the destiny of the nation," the President said when she was sworn to office. "I have accepted this task in the name of Haitian women, and I intend to take the country, in the shortest possible time, towards an elected government."

When Gen Prosper Avril, who headed a military government for 18 months, resigned and left the country, the leaders of several opposition parties and Gen Herard Abraham, the head of the army, agreed on a candidate for the interim presidency.

Mrs Pascal Trouillot was their fifth choice because the others refused the job. Such is the uncertainty of leadership in the maelstrom of Haitian politics that few are now willing to risk, even temporarily, trying to put things right.

President Pascal-Trouillot keeps an eye on General Herard Abraham who helped her to power

Since President Jean-Claude Duvalier fled the country in February 1986, ending 29 years of family dictatorship, Haiti has made tortured progress towards political reform. The efforts have been ambushed by political thuggery which is common in the country, and which was evident in the murder of 34 people in 1987 while they waited to vote in a presidential election.

This was followed by a vote of questionable integrity, leading to a short-lived civilian government which itself was followed by two coups and at least three botched attempts.

Despite the difficulty of her job, Mrs Pascal-Trouillot has several things going for her. Since the fall of the Duvalier dynasty, Haitians have clearly shown they want change. Gen Avril's downfall resulted from failing to live up to promises of free elections and to a transfer of power to a civilian government. But Haitians could not contain their frustration when, in late January, the head of the government declared a state of emergency and deported the leaders of several political parties.

Mrs Pascal Trouillot has also received promises of support from friends and neighbours. She has been welcomed by the US which traditionally has been a major player in Haitian politics.

Washington was embarrassed by the performance of Gen Avril, who had been described by the State Department as offering the best hope for political reform in Haiti. Official aid to Haiti was suspended by the US after the massacre of voters in 1987, but to encourage Gen Avril, Washington had promised significant "humanitarian" aid.

The general was virtually abandoned by Washington after his excesses in January. The interim president is also being supported by Caribbean neighbours, mainly the countries of the Caribbean Economic Community (Caricom).

At a weekend summit in Barbados, the community's leaders said Mrs Pascal-Trouillot's administration offered Haitians "fresh hope for securing their civil and political rights."

Caricom has restated an offer, first made to Gen Avril, to assist in planning and administering elections - skills which are rusty in Haiti but well honed in the Caribbean Community.

"Haiti is not going to go away," said Sir Lynden Pindling, prime minister of the Bahamas. "We are going to have to find a way to live with the situation and it will be in the Caribbean's best interest to try to give whatever assistance we can."

But Mrs Pascal-Trouillot can be forgiven if she moves warily. There are elements in Haiti which are set against the sort of change which she intends to oversee.

Since the departure of Gen Avril, armed gangs have been roaming sections of Port-au-Prince, the capital, and other towns. Haitians speak fearfully of a resurgence of the "tontons macoutes," the ruthless and feared praetorian guard of the Duvalier dynasty. And there is general concern in the country about the palace guard of about 1,000 men, loyal to Gen Avril until his departure, but now without his patronage, who are uncertain about their future and well armed.

The army, which has been at the heart of political matters for the past four years, is always regarded with suspicion. But Gen Abraham has scored highly so far. Mr Marc Bazin, who is expected to be a leading candidate in the presidential election, said he is encouraged by the behaviour of the army over the past ten days.

According to Mr Venel Remarais, a member of the Council of State "The army realises it is to its advantage to unite with the people to pull the country out of this mess."

There may be few, however, who would be willing to discount the likely difficulties the interim administration will face in the next few months. The good intentions of Mrs Pascal-Trouillot could easily be derailed by instability fomented by those who think the country would be better run by senior military officers. And there are many in Haiti.

Petroleos de Venezuela plans new oil investments

by Joe Mann in Caracas

MR ANDRES SOSA PIETRI, the new president of Venezuela's national oil company, Petroleos de Venezuela S.A. (PDVSA), said that he plans to push ahead aggressively with a series of new projects in Venezuela's petrochemical sector, and increase investments in oil exploration and production capacity.

Mr Sosa, who earlier this month took over as president of PDVSA, one of the world's largest oil companies, said in an interview in Caracas that he expected international and domestic investors to play a key role in new projects to be set up in Venezuela.

Conditions for foreign investors in Venezuela have improved "dramatically" over the last year, he said.

The oil company's new management - which includes Mr Sosa and seven new directors on the 15-member board - is planning no fundamental changes in investment plans through 1995.

Mr Sosa, a 47-year-old attorney and businessman, was criticised by some long-time oil company executives as an industry "outsider" when he was picked to head Venezuela's largest company.

He replaced outgoing president Juan Chacin, who worked in the Venezuelan oil industry for 35 years.

In choosing Mr Sosa, President Carlos Andres Perez demonstrated that he wanted the state oil company to be headed by a successful entrepreneur with broad political experience rather than a manager from the industry's ranks.

Aside from working as a lawyer and manager, Mr Sosa also served as an independent senator for the Venezuelan socialist party, MAS, during the 1970s. Three other industry "outsiders" were also named directors of PDVSA earlier this month. The majority of board members are oil executives.

UK NEWS

Electricity Privatisation

French sign deal to supply power across Channel

By Maurice Samuelson

THE FRENCH and British electricity industries yesterday signed a three year agreement for the resumption of large scale sales of French nuclear electricity across the English Channel.

The deal was signed in Paris between Electricité de France, the French state utility, and the 12 area distribution companies of England and Wales.

The National Grid Company, which will inherit the Central Electricity Generating Board's (CEGB) title to half the cross-Channel electricity link, is involved in the deal which will provide French access to the new British electricity trading pool being set up this weekend.

The link has a capacity of 2,000 MegaWatts and will be fully available for the exchange of power in either direction.

The deal with the distribution companies, however, is for the sale of 1,500MW of French power and will provide a firm price for these deliveries.

Mr Duncan Ross, chairman of Southern Electric, said EdF's presence in the British power market would increase competition there and was a "useful expansion of the area distribution companies' electricity supply portfolios".

Mr Bill Withycombe, chief executive of ALEC, a joint venture company set up by EdF and Associated Heat Services to support EdF in the negotiations, said his company intended to seek further opportunities for EdF in the British power market.

It was also announced yesterday that the East Midlands Electricity Board and Hawker Siddeley Power Engineering are to build a new £120m gas-fired power station at Corby, Northamptonshire.

Work is expected to begin in the summer following the conclusion of a gas supply agreement with British Petroleum and for purchase of the electricity by the East Midlands Electricity Board.

In London yesterday, a City investment analyst warned other private electricity producers that few genuinely independent stations were likely to be built because of domination of the UK power market by the two main generators, National Power and PowerGen.

Dr John Wilson, an equities researcher at stockbrokers UBS Philips & Drew, told a conference of the Association of Independent Electricity Producers that the CEGB successor companies would keep power prices low enough to make it difficult for newcomers to break into their market.

According to Dr Wilson, the independents would pose "the threat of competition" but were unlikely to be able to raise enough money to bring competitive projects to fruition.

Like power stations planned by a number of other electricity distribution companies, the Corby plant is intended to give them bargaining leverage over National Power and PowerGen from whom the distributors most of the power supplies.

The Corby turbines are to be built by the European Gas Turbine Company, recently formed by GEC Alsthom and by General Electric of the US.

The plant's gas will be supplied from BP's Bruce field in the North Sea. Following last year's Monopolies and Mergers Commission recommendations, up to 10 per cent of all new North Sea fields has to be sold to customers other than British Gas.

● AMOCO, the US oil company, is to support a £40m British pilot plant to make petroleum from coal.

It will invest $1m in the British Coal Corporation's plant at Point of Ayr, North Wales, which is designed to liquefy 2.5 tonnes of coal a day into petrol and other oil products.

The Point of Ayr plant is also receiving financial support from the European Community, Ruhrkohle, the West German coal producer, and the British Department of Energy.

Broadcast law altered to reflect tradition

By Raymond Snoddy

A REMARKABLE compromise has been struck between the Government and Britain's broadcasters over the broadcasting bill heading towards report stage in the House of Commons.

The free market principles that were at the centre of both the broadcasting policy document and the bill published last year after nearly five years of debate, have been modified markedly to reflect the traditions of British broadcasting.

Even political opponents are acknowledging that Mr David Mellor, the Home Office minister responsible for broadcasting, greatly improved the bill during the Committee stage.

The quality threshold has been strengthened by adding explicit obligations on broadcasters to produce both children's and religious programmes and to make high quality regional programmes. The Independent Television Commission, the body that will replace the IBA, will also be able to provide a clear set of programme obligations. More importantly, the ITC will be able to consider both the cash bids and programme proposals in tandem to see how practical the entire package is.

Mr Mellor got Prime Ministerial permission to make it explicit in the bill that a bid offering exceptional quality would always win over the highest cash bid. The Government also dropped controversial clauses that would have allowed a policeman of the rank of superintendent or above to seize scripts or tapes before broadcast.

Despite the acknowledged Government compromises there are three remaining controversial issues:

● cross media ownership and whether Mr Rupert Murdoch, chief executive of the News Corporation, should be able to own five national newspapers and four satellite TV channels;

● the need for a one-year moratorium on takeovers;

● Government insistence that 51 per cent of Independent Television News should be sold to outside interests.

Esso discloses profit drop and predicts another difficult year

By David Thomas, Resources Editor

ESSO yesterday forecast another difficult year for North Sea oil production, resulting from the continuing refurbishment of offshore platforms and the installation of safety equipment.

The UK subsidiary of Exxon, the largest US-based oil company, made the forecast as it disclosed a 15 per cent cut in its 1989 after-tax profits to £289m.

Esso's North Sea oil and gas earnings last year were affected by prolonged platform shutdowns for maintenance and modification in the Cormorant and Brent fields, together with industrial relations difficulties among contractors.

These problems outweighed gains from higher oil prices.

"The offshore production difficulties, a warmer winter and continuing fierce competition in the refining and marketing business have compounded to have an impact on our income and reduce our return on capital employed to 10.5 per cent," said Sir Archibald Forster, Esso's chairman, who described the return on capital figure as "barely acceptable."

Esso's UK production fell 30 per cent last year to 276,000 barrels a day, while gas sales were also down by a fifth.

The company yesterday forecast some recovery in North Sea production this year, but said that output would still not be back to 1988 levels.

Esso says that investment will increase this year to £700m, compared with £672m in 1989, which the company described as a good year for exploration, with new discoveries running ahead of production.

Esso is forecasting potential investment of £3bn to £3.5bn over the next five years, with more than a dozen fields awaiting development.

Gross revenues last year increased 2.4 per cent to £5.4bn.

This figure includes £2bn of excise duties and VAT and £415m of taxes.

Iveco Ford workers reject 9.25% offer and call strike poll

By Michael Smith

SHOP STEWARDS at Iveco Ford, the truck maker, yesterday rejected an improved pay offer, worth 9.25 per cent in the first year, and advised manual workers to vote to strike in a ballot next week.

Mr Jock Campbell, union convener, said a strike planned to start tomorrow had been postponed. Although it had been sanctioned by more than 80 per cent of voters in a ballot, the offer had been changed and the unions wanted to stay within the law.

Next week's ballot will face the 1,100 Iveco Ford workers with a tough decision. Although they are looking for at least parity with workers at Ford's wholly-owned plants, which recently won 10.2 per cent, Iveco Ford's ability to shrug off the effects of a strike has been increased by a decline in demand for trucks.

The company recently announced a three-day week. It believes that the UK market for trucks of over 3½ tonnes will decline from 70,000 units last year to between 58,000 and 60,000 this year.

The proposed package, formulated in talks which went on until late on Tuesday and described as final, would last for two years, rather than the three the company had sought.

The first year pay increase would remain at 9.25 per cent, although the company would also provide a one-off unconsolidated payment of £150.

In the second year the rise would be 8 per cent, or the inflation rate, whichever is higher. The company has also offered two extra days' holiday a year with an extra day from next year for employees with five years' service.

Mr Mel Lambert, Iveco Ford personnel director, said the company had worked hard to produce a package it believed met the financial demands put on the workforce by the economic climate.

Mr Campbell has cited the poll tax and mortgage rate increases as reasons why workers are not happy with the pay offer. He said yesterday that there was strong opposition to the company's proposals for technical craftsmen's grades.

Manual workers will meet on Tuesday to hear a report from their negotiators. The ballot will be held on Wednesday.

Report urges ban on waste imports to UK

By David Thomas, Resources Editor

The British Government should ban immediately the import of wastes which are intended to be buried in waste tips, the House of Commons Select Committee on Welsh affairs recommended in a report published yesterday.

The report, which recommends UK-wide action, arose out of concern that many landfill sites used for disposing waste in Wales are potentially dangerous.

Those responsible for placing CFCs (chlorofluorocarbons), a substance which depletes the ozone layer, in equipment such as refrigerators should pay to have them stripped out before they are dumped, the report recommends.

The committee asked the Department of the Environment, together with the Welsh Office, to consider urgently the problems of householders in getting insurance cover for houses near landfill sites.

It also called on the Environment Department to request the British tyre industry to introduce recycling programmes for worn tyres. The MPs recommended European Community action.

Toxic Waste Disposal in Wales. First Report. Welsh Affairs Committee. 1989-90.

The painful case of the workers who lose their grip

Diane Summers on an affliction which spans centuries and industries from the countryside to the city

SPROUT-PICKER'S thumb, telegraphist's cramp and pizza-cutter's palsy – popular names for occupational afflictions that span the centuries and take in ways of living from the rustic to the cosmopolitan.

At worst, fingers may lose their grip, and shooting pains in the arms and hands force sufferers to abandon their craft. At best, there is discomfort and soreness, but also remedy, recovery and, most importantly, prevention.

Repetitive Strain Injury (RSI) is the common label for a number of related conditions that include tenosynovitis, carpal tunnel syndrome and tennis elbow. "Work-related upper limb disorders" is the experts' preferred term.

Absence from work because of musculoskeletal system problems account for more than 70m days each year – although there are no estimates of time lost for ailments of the arms and hands.

RSI has, quite literally, been making the news. With the introduction of new technology, journalists are the occupational group to have been most recently hit.

The Financial Times, for example, is suffering a severe outbreak: over the past 2½ years at least 120 people out of a total editorial staff of some 340 have reported possible RSI symptoms. The newspaper's spending is running at a rate of £700,000 a year in an attempt to crack the problem.

The case of Mrs Pauline Burnard, the former Midland Bank secretary, received much publicity when she accepted an out-of-court settlement of £45,000 last year for her RSI. Earlier this month three computer data clerks who had worked for the Inland Revenue, in another widely-publicised case, received between them £107,500.

But while journalists write about journalists and other white-collar workers, most RSI sufferers, who are in lower-paid manual jobs, receive nowhere near the same attention.

Mrs Ann Pass, 33, worked until three years ago in the high RSI-risk pottery industry. Her job was to smooth the seams on pottery figures, a repetitive task that demanded quick and dexterous hands. Mrs Pass says her problems began when she was moved to work on jugs that were too large and heavy for her to hold.

"After a very short time I had pains shooting up my arm. I complained and went to see the nurse who put an elastic bandage on my wrist and sent me back to work."

Mrs Pass thought it might be a sprain and had no idea her injury was so serious. She was moved to another job but found that the damage to her hand meant she could hold nothing. A prolonged period off sick, interspersed with attempts to work, ended in the loss of her job.

It was 18 months before she saw some improvement in her condition and, even now, she says she sometimes cries with the pain and is frequently kept awake at night by it. The grip of her left hand has still to return. She now works part-time in an office: "It's easier work but I miss the money."

Like workers in the clothing industry, pottery workers are often paid piecework – a feature that can add to the risk of pushing beyond reasonable physical limits.

Mrs Pass was unhappy with her out-of-court settlement but felt, as a single parent, that she had no option but to accept. "There was no guarantee that I would have got more by going to court and I could have ended up with nothing," she says.

Almost all RSI cases, in common with other personal injury claims, settle out of court. The going rate, according to solicitors handling both sides of these claims, is between £3,000 and £7,500.

If this seems low – especially when compared with recent white-collar awards – it is because such sums are for "pain and suffering" and not to compensate for loss of earnings. Mr Robin Humphreys, a Birmingham lawyer who regularly handles cases for pottery companies insurers, finds that most people settle on the basis that they could go to other occupations.

Also driving down the level of settlements is the diversity of medical opinion on RSI. For every doctor that will speak for a claim, another can be found who will speak against an employer's liability. The controversy surrounding the condition makes a two-year wait to go to court, with no guarantee of success, an unattractive option.

However, three factors could start to work in the favour of manual workers with RSI: greater awareness of the condition and how it can be prevented; the mechanisation of some particularly risky jobs now done by hand; and the mounting pressure of claims by white-collar workers.

"There has been increased awareness on both sides in recent year," Mr Humphreys said. "There is more information available to employers from bodies like the Health and Safety Executive. It's difficult today for any pottery employer to say they have never heard of RSI – 10 years ago they might have tried." He also points to the role of trade unions in spreading information.

Some types of RSI will go the way of telegraphist's cramp: not cured, but abolished along with the job itself. Food processing, for example, is becoming increasingly mechanised, doing away with the need for RSI-suffering poultry workers to pluck, gut and truss by hand. (Though technology-driven change in jobs has its own dangers).

Finally, there is the question of compensation. Dr Colin Mackay from the Health and Safety Executive, while stressing that his business is prevention, predicts that the level of awards will increase markedly. "It will increase because employers can now do something about prevention," and because of the beneficial effects of white-collar pressure.

Thatcher's telephone advice to Gorbachev

MRS MARGARET THATCHER urged both the Soviet Union and the republic of Lithuania to show restraint during a 50-minute telephone conversation with Mr Mikhail Gorbachev yesterday, writes Ralph Atkins.

The Prime Minister expressed anxiety that force should be avoided in the call which appeared to be deliberately arranged as a prelude to her meeting tomorrow with Mr Helmut Kohl, the West German Chancellor.

The Soviet leader is understood to have outlined his position but was not asked by Mrs Thatcher to give any undertakings.

Mrs Thatcher is due to meet President Bush of the US in two weeks.

Although Mrs Thatcher called for caution by both sides, she has stopped short of condemning Soviet action.

In her conversation with Mr Gorbachev, she is thought to have repeated her comments to Members of Parliament on Tuesday when she acknowledged the difficulties faced by the Soviet leader.

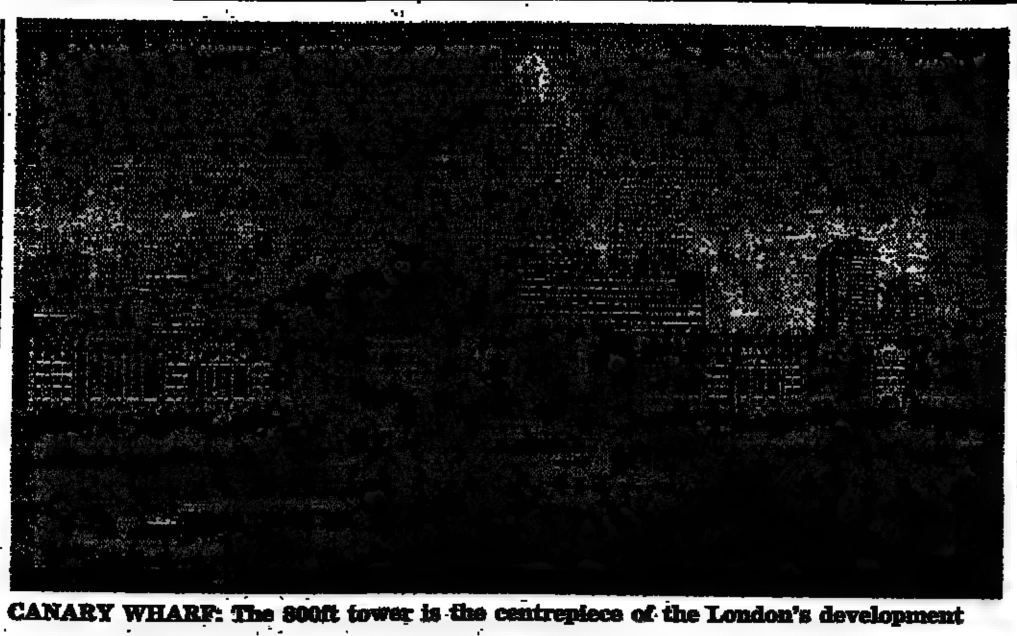
Mrs Thatcher has stressed that the Lithuanians have made clear their wish to determine their own future and that Britain had never recognised the annexation of the republic by the Soviet Union as legal.

She told the House of Commons this week, however, that "force is not an appropriate way to settle the position" – a point of view she believes is accepted by the 12 foreign secretaries of the European Community.

Downing Street sources said the call was initiated through diplomatic channels, with both countries agreeing that discussion was desirable. About half the time was taken up with translations.

The tone of the conversation is not clear but officials said Mrs Thatcher believed the objective should be to lower the temperature, with negotiations and talks as the best way forward.

The conversation also covered the the East German elections, prospects for German unification and Mrs Thatcher's visit to Kiev in June.



CANARY WHARF: The 800ft tower is the centrepiece of the London's development

Staff given 24 hours to leave site at Canary Wharf

Managers of UK's tallest tower construction sacked

By Andrew Taylor, Construction Correspondent

THE ENTIRE British and Canadian management team responsible for constructing Britain's tallest building – a controversial 800ft office tower in London's docklands, which is running six months behind schedule – has been sacked.

Staff employed at Canary Wharf by Ellis Don McAlpine, construction managers for the tower, were told on Tuesday by Olympia & York, developer of the £4bn Canary Wharf project, to clear their desks within 24 hours.

Sir Robert McAlpine, the British construction group, and Ellis Don, Canada's largest commercial builder, were appointed two years ago to manage the construction of the tower – designed by American architect Mr Cesar Pelli – at a cost of £275m.

Olympia & York, the world's largest privately owned property group, owned by the Reichmann family, has been disappointed by construction delays on the tower.

It intends to manage the construction of the building with Lehrer McGovern International, a US-based construction management company owned by Bovis, the large UK construction group.

Lehrer McGovern International is project manager for the first phase of Canary Wharf which will provide about 4.5m sq ft of office and retail space. So far only about a third of this space has been let.

Mr Michael Dennis, executive director of the Canary Wharf scheme for Olympia & York, said the group had been involved in UK construction for more than 2½ years.

It was well equipped to take over the role of management contractor in line with its normal practice in the US and Canada.

The group blamed delays in work on the tower on last year's dock strike, industrial action by steel erectors and problems caused by this winter's high winds.

It said Ellis Don McAlpine would continue to provide support services and concrete work for the tower.

Topping out of 50th floor is due to be completed by the early autumn. It is seen as surprising that Olympia & York wanted to replace its construction managers at this late stage if it felt the delays were caused by factors beyond the control of the contractors.

Mr Dennis said construction of the tower, which will be Europe's second tallest building behind an office development in Frankfurt, had now reached the 25th floor.

He said he was confident it would be completed with no further delays or disruption to contractors or employees.

Olympia is one of the few companies outside of the large Japanese developers with the financial muscle to undertake the Canary Wharf project, which will take more than seven years to complete.

The mixture of office, retail and leisure space is unlikely to start recouping the costs of the project for 10 years. Tenant demand however not expected to increase until there are better transport links, not least among them an extension to the Jubilee Line announced last year.

Canary Wharf was conceived in the 1980's as the heart of the vast redevelopment of London's dockland area of the Isle of Dogs - an industrial peninsula of warehousing and docks bounded on three-sides by the River Thames.

Canary Wharf is the largest project in the so-called 'Docklands' and is already linked to an overland light railway system while a link to the London Underground network is planned.

TV to name suspects in worst British atrocity

Bid to stop IRA bomb film fails

By Jimmy Burns, Ralph Atkins, and Kieran Cooke

AN ATTEMPT to prevent the naming by a TV documentary of the men allegedly behind the 1974 Birmingham pub bombings failed in Dublin's Supreme Court yesterday, paving the way for the screening of the controversial programme last night.

Lawyers for a man named in the drama-documentary who took the legal action, said the programme would name their client as "one of the persons who had planted or participated in the planting of bombs in Birmingham in 1974."

The client asserted in an affidavit that he was not involved in any way with the bombings.

Earlier yesterday, the UK's regulatory body for commercial TV, rejected a request from Mr Tony Benn, MP, to stop the makers of the programme, Granada TV, from identifying the five alleged Irish Republican Army bombers. Mr Benn described the decision to broadcast the names as a 'gross abuse of media power' which could threaten the lives of those mentioned in the programme.

However the Independent Broadcasting Authority said last night that after consulting with the producers of the programme and their lawyers, it saw "no reason" to order that the names be removed.

The Authority said that all five names had been "known to the security forces for many years", and two of them had been mentioned in previous programmes made by the World in Action team.

The programme was going ahead last night as Labour MP, Mr Chris Mullin published new material also claiming that the authorities knew the names of the IRA members responsible for the Birmingham pub bombings within months of the wrong men - the so-called Birmingham Six - being jailed for life.

Mr Mullin told the BBC that evidence in his new book "should bring about the resolution of this case. I don't believe the lie can be sustained much longer."

He said Granada TV had obtained its evidence from different sources to his, adding: "They must take responsibility" for naming names.

"My principal concern is with the innocence of these six poor individuals who have now been in prison for 16 years."

The Government yesterday made no attempt to block the showing of the documentary. The Home Office said last night however that no further decision on the bombing case would be made until after the conclusion of a fresh police inquiry into new materials submitted by lawyers of the Birmingham Six.

The Birmingham pub bombings in November 1974 killed twenty-one people, and injured 182 in the worst IRA atrocity on mainland Britain.

Political controversy over the case has intensified following the release in October of the Guildford Four, who had been convicted of other IRA mainland pub bombings.

The case of the Birmingham Six was referred back to the Court of Appeal two years ago but the court dismissed appeals by the men.

The TV programme's executive producer said Granada would be sending the documents referred to in the documentary to the Home Office and Director of Public Prosecutions.

EC competition could diversify investment

By Anthony Moreton, Welsh Correspondent

THE ABILITY of Wales to attract Japanese companies could be undermined in an enlarged European Community by a relative weakening in the UK's appeal as a home for international investment, according to Dr Max Munday of the Cardiff Business School.

In a book on Japanese manufacturing investment in Wales, sponsored by the Institute of Welsh Affairs, Dr Munday points out that competition for inward investment has become much more intense.

Some countries which had previously opposed Japanese investment, such as France and Italy, had joined the race to attract it, Dr Munday said.

Dr Munday warned yesterday that with increasing competition "its geographic position as a peripheral nation will make it increasingly difficult to attract them in the 1990s."

Telford, the West Midlands and the north-east of England have also been successful in attracting the Japanese.

Japanese Manufacturing Investment in Wales, Max Munday. University of Wales Press. £25.

GUINNESS TRIAL

Broker was unaware of indemnities offer

By Raymond Hughes, Law Courts Correspondent

WOOD Mackenzie, one of Guinness's brokers during the 1986 takeover battle for Distillers, was never aware that indemnities were being offered to those buying Guinness shares to support their price, the Guinness trial heard yesterday.

Mr Scott Dobbie, then managing director of Wood Mackenzie and now vice-chairman of County Natwest Securities, said he would have been surprised had he been told that indemnities were being offered.

Had he known that National Insurance Guarantee Corporation, a Heron group company, which had bought Guinness shares through Wood Mackenzie, had been offered an indemnity, he would have checked with NIGC, he said.

If the facts had been substantiated he would have raised the matter with Guinness. If still unsatisfied he would have gone to the takeover panel and/or the Stock Exchange.

Mr Dobbie was giving evidence at the trial of Mr Ernest Saunders, former chairman and chief executive of Guinness, Mr Gerald Ronson, chairman of the Heron group, Mr Anthony Parnes, a City stockbroker, and Sir Jack Lyons, the millionaire financier.

They deny charges arising from an allegedly unlawful share support operation mounted by Guinness during its battle with Argyll for Distillers. The prosecution alleges that the operation involved indemnifying supporters against loss and paying them success fees.

Mr Dobbie said that on February 7, 1986, the day after Argyll announced it was increasing its offer for Distillers, there had been a sharp downturn in the Guinness share price. It had been believed that Argyll's brokers had been selling Guinness shares to depress their price.

Mr Saunders had telephoned him, expressing concern that Guinness's brokers had not been more alert to try to avoid that sort of thing happening. He had thought that Guinness was being out-manoeuvred by Argyll, Mr Dobbie said.

Had that incident led to a change in the relationship between Wood Mackenzie and Guinness ? asked Mr John Chadwick, QC, prosecuting.

Mr Dobbie said he had had the impression that his firm was no longer as close to the centre of the action as it had been.

He said that Wood Mackenzie had resigned as Guinness's broker in July, 1986, because it had been unhappy about the "concentration of management power" in Mr Saunders, who had become chairman as well as chief executive following the Distillers acquisition.

Mr Richard Ferguson, QC, for Mr Saunders, suggested that in takeovers merchant banks like Morgan Grenfell, which had acted for Guinness, were more in control than the company.

Mr Dobbie said it depended on the bank and the company. In Guinness, with two competent people like Mr Saunders and Mr Olivier Roux, then director of finance, Morgan Grenfell had been questioned very thoroughly on every step.

He agreed that the bank and its then corporate finance director Mr Roger Seelig were acknowledged takeover experts.

He said that, though not financially naive, Mr Saunders had been more obviously a marketing man than a financier.

The trial continues today.

MANAGEMENT: Marketing and Advertising

UK design

All sectors suffer as cutbacks begin to bite

By Alice Rawsthorn

The design industry in the UK has just experienced an era of apparently inexorable growth. The 1980s were, after all, dubbed the "design decade" – a period when everyone from stock market analysts to the Prime Minister was taking the subject seriously.

So far the 1990s have been very, very different. The industry has become even more fiercely competitive; some clients have postponed projects, others have cut budgets and new business has been harder to find.

The design consultancies have been forced to cut costs and shed staff. "Everyone is struggling," says Alan Brew, managing director of Landor Europe, one of London's largest design consultancies. "The economy is in trouble and companies are cautious about the future. The whole industry is suffering."

The crux of the industry's problem is the increase in interest rates, which has not only squeezed consumer spending but imposed intense pressure on corporate profits. Companies that once splashed out on new store designs, product development programmes or corporate identity schemes, have found themselves with much less money to spend.

The industry remained relatively robust until last autumn, so its problems have yet to be fully reflected in financial results. The latest issue of Design Week magazine shows that the 100 largest design consultancies increased their fee income by 17 per cent to £525m in 1989. Though healthy enough, this is far lower than the 50 per cent growth achieved in each of the two preceding years.

Every area of the industry is now suffering, though the different sectors – the industry tends to be divided into three categories of retail, brand and corporate design – have been affected to differing degrees.

The first sector to suffer was retail design. The market exploded in the mid-1980s on the back of a surge in consumer spending, generated by low interest rates and easy access to credit. Mergers and acquisitions in the retail sector created new forces on the high street. The success of the new genre of "designer retailers" intensified the pressure on other companies to invest in design.

But by spring last year this scenario had begun to change. Rising interest rates were starting to affect consumer spending. Many big retailers were experiencing intense pressure on profits – partly due to their over-ambitious expansion in the mid-1980s and partly to rising rents and rates. These problems were exacerbated by the very visible problems of the designer retailers, like Next.

Ian Cochrane, chief executive of Fitch, a leading retail design consultancy, says: "Many clients are cutting back. They will go ahead with one project rather than three. Or they are stretching a programme across the whole year, rather than finishing it all in one go. Some retailers are making their old store designs last a little longer. They know it could be damaging in the long term. But if they have not got the money, there is nothing they can do."

Retail design consultancies have been sheltered to some extent by the resilience of new markets, in leisure and financial services. But even these are starting to slow down.

Similarly, the other two areas of the design industry – brand design and corporate identity – are faltering. Brand design, which includes packaging design and new product development, benefited from buoyant consumer spending in the 1980s and from companies revising their product portfolios to reflect more discerning consumer tastes.

However, rising interest rates have lifted the cost of long-term product development programmes and the uncertain economic outlook has made companies more cautious about committing themselves to such projects.

It has been relatively easy for companies to cut back on packaging and product development because they tend to commission these projects on an *ad hoc* basis. So far the downturn in brand design has been less severe than in the retail sector and there are some signs that it could be less prolonged.

Stephen Woodward, group development director at Michael Peters, a leading player in brand design, says that some of the companies which adopted a "wait and see" attitude late last year are now moving back into the market.

The corporate identity sector has followed a similar pattern to that of brand design, but with a less dramatic slowdown in activity than has happened in retail design.

Corporate identity flourished during the flurry of takeover activity and the Government's privatisation programme in the 1980s which together created a generation of companies needing new names and identities. The growth of public interest in the corporate sector – fuelled by the deregulation of financial markets and wider share ownership – also encouraged existing companies to change their identities.

Because corporate identity projects tend to be longer term than other programmes, many consultancies have yet to feel the full effect of the slowdown. "We are still busy with the large, long-term projects we won last year," says Wally Olins, chairman of Wolff Olins, one of the leading corporate identity consultancies. "But the market is quieter. There are fewer new jobs around and there is fierce competition for them."

Consultancies in all sectors are reported to be dropping fees or throwing in free services in a desperate attempt to drum up new business. The trend towards speculative pitching – presenting unsolicited schemes to clients – has also accelerated.

Most consultancies have been forced to cut costs. Fitch announced 25 redundancies, from its workforce of 550, in February. Earlier in the year Conran Design Group, a subsidiary of the Storehouse retail group, made 30 people redundant. Michael Peters has shed 40 from its 700-strong group.

Some observers suspect that the general problems posed by the downturn have been aggravated by the structural weaknesses of the design industry. Despite its expansion in the 1980s, the industry still exhibits many characteristics of an archetypal cottage industry with weak management and poor financial controls.

"Even the largest consultancies still suffer from inefficient management," says Neil Blackley, marketing services analyst at James Capel, the London stockbrokers. "Their financial systems were not sophisticated enough to spot the downturn in advance. Most have now cut back, but they made the cuts too late. If they had cut costs earlier they would be in a stronger position today."

No one in the industry expects the economic environment to improve before the end of this year at the earliest. One serious concern is that the present downturn could be a reflection, not only of the harsher economic environment, but of a longer term disillusion with design.

Even in the buoyant era of the late 1980s, some consultancies were concerned that the sudden surge of interest in design was simply a management fad, which could go out just as quickly as it had come into fashion.

The speed of the slump in the retail design sector offers some support to this theory. There is also a suspicion that the industry may be paying the price for the "quick fix" schemes of the 1980s. "Some companies jumped on to the bandwagon and used design in a very superficial way," says Brew of Landor. "It will take a long time to convince them that the results might have been different had they used design more intelligently."

Most consultancies seem convinced that clients are cutting back solely because of short-term budget constraints, not because they no longer see a role for design in their future. Moreover, despite the economic squeeze, the long-term corporate and cultural trends that fuelled investment in design are as strong as ever.

Takeover activity has slowed down, but the corporate identity consultancies should still benefit from the new vogue for transnational joint ventures. Similarly retail and brand design should be stimulated by demographic changes, such as the increase in the over-50s and the new baby boom.

In the meantime most consultancies hope to counter the weakness of the UK market by drumming up new business from other countries, chiefly from the buoyant markets of Europe.

Wally Olins is convinced that, even without the downturn, most of the growth in the corporate identity sector would have come from other countries. "Corporate identity is more mature in the UK than elsewhere in Europe," he says. "If you look down the list of Top 100 companies, they have either introduced new identities, or probably have a good reason for keeping the old ones. But the market in other countries is enormous."

The 1980s expansion of the UK design industry attracted so much attention overseas that many consultancies have become well known in the international market. Even Din Associates, the retail design consultancy, which was formed four years ago and now employs 14 people, is working extensively in Europe. It made 45 per cent of its £680,000 turnover outside the UK last year.

"We have been very lucky," says Rasshied Din. "The UK market is flat, but we have had lots of publicity in Europe and are winning business there. We also have the advantage of being a small company without huge overheads to support."

The larger consultancies are continuing the process, begun in the 1980s, of expanding their European interests. Fitch recently opened an office outside Frankfurt and is opening one in Madrid next month.

Last week Landor strengthened its presence in France by merging its French operation with Beautiful Design House, one of the biggest consultancies in Paris.

But the buoyant European market is not a panacea for the UK industry's problems. The industry's track record in the international arena is scarcely scintillating. Fitch is returning to Europe after an unsuccessful foray in the early 1980s.

Wolff Olins is still struggling to establish an international operation and recently closed its US office. Similarly the Michael Peters Group is suffering from the problems of Hambrecht Terrell, the US retail design consultancy it bought two years ago.

The pessimists in the UK design industry say it is still too immature and too fragmented to become a force in the international market. The optimists claim that the current slowdown could be beneficial in that it might force the industry to accelerate its international expansion and to get to grips with its long-term structural problems.

"This is an industry which has known nothing but growth," says Woodward of Michael Peters. "The market is tough at the moment. But at least the current downturn could force the industry to address the difficult issues about its long-term development. It might even help it to grow up."

The risks of being stretched too thinly

Clay Harris looks beyond brand extension

What do Mars, Bowyers, Flora and Ryvita have in common?

All are household names which have found new homes on unfamiliar products. "Brand stretching" – transferring an established name to a new product in a different market – has been used by consumer products manufacturers for some time; now their counterparts in food are catching on.

Brand stretching goes beyond brand extension, when new products are introduced in the same category – such as HP's recent introduction of chill and curry sauces. A brand is only stretched when it is closely identified with a core product – thus Mars Bar ice cream, Bowyers potato salad, Flora salad dressing and Ryvita breakfast cereal. Another is Quaker, which has leapfrogged from porridge oats into a new category – bread.

Stretching increases the survival chances of new products; only 30 per cent of brands are still around four years after launch, according to OC&C Strategy Consultants.

Name familiarity helps manufacturers to persuade retailers to devote precious shelf space to a new product and to allow it reasonable time there. In their favour, manufacturers can cite evidence that consumers are more willing to experiment with and adopt a stretched brand. By building on an established identity, a stretched brand costs up to 40 per cent less to launch than a new name, OC&C estimates.

But there are risks. A health or safety scare in the new product area could rub off on the reputation of the core brand.

A more central fear, however, is that the core brand will be diluted. "The more you stretch it, the more you dilute your core brand," says Jim Grover, an OC&C director. "At some stage, the elastic snaps."

Food groups therefore have to balance long-term risks against short-term potential and choose the moment carefully. "You wouldn't want to do it when you thought the brand still had further potential," says Grover.

Brand Stretching: Risks and Rewards. OC&C Strategy Consultants, Kings Buildings, Smith Square, London SW1

Marketing abstracts

Strategically desirable brand name characteristics, *K Robertson in Journal of Consumer Marketing (US), Autumn 89 (11 pages)*

How does one judge whether a brand or company name is good or bad? Proposes two crucial factors – it can be memorised and retrieved; it supports strategic positioning. Outlines characteristics related to memory (eg meaning, distinctiveness, emotion) and characteristics for support, looking at linguistic aspects. Offers several examples, for instance, Odor-Eaters is regarded as successfully supporting a brand image or positioning strategy.

Copy chasers: some really great stuff, *Business Marketing (US) Jan 90 (5 pages)*

Hunter Associates Laboratory is the winner of an award for the best business-industrial advertising. Its print ad adheres to ten key criteria for copy chasing. These range from providing visual magnetism (in this case an off-colour cross-eyed girl eating a fruit sundae), through inviting the reader into the scene, talking person-to-person, and reflecting the company's character.

Sponsorship v "ambush" marketing, *D M Sandler & D Shani in Journal of Advertising Research (US) Aug/Sep 89 (6 pages)*

Draws attention to the fact that the 1988 Winter Olympics, officially sponsored at high cost by several companies, were also exploited via advertising and other publicity techniques by "ambushers" who sought to gain some of the recognition and benefits gained by official sponsors but at lower cost (cost, of course, is relative in that Quality Inns, an ambusher, spent $7m on advertising); draws conclusions on the ambushers' gains.

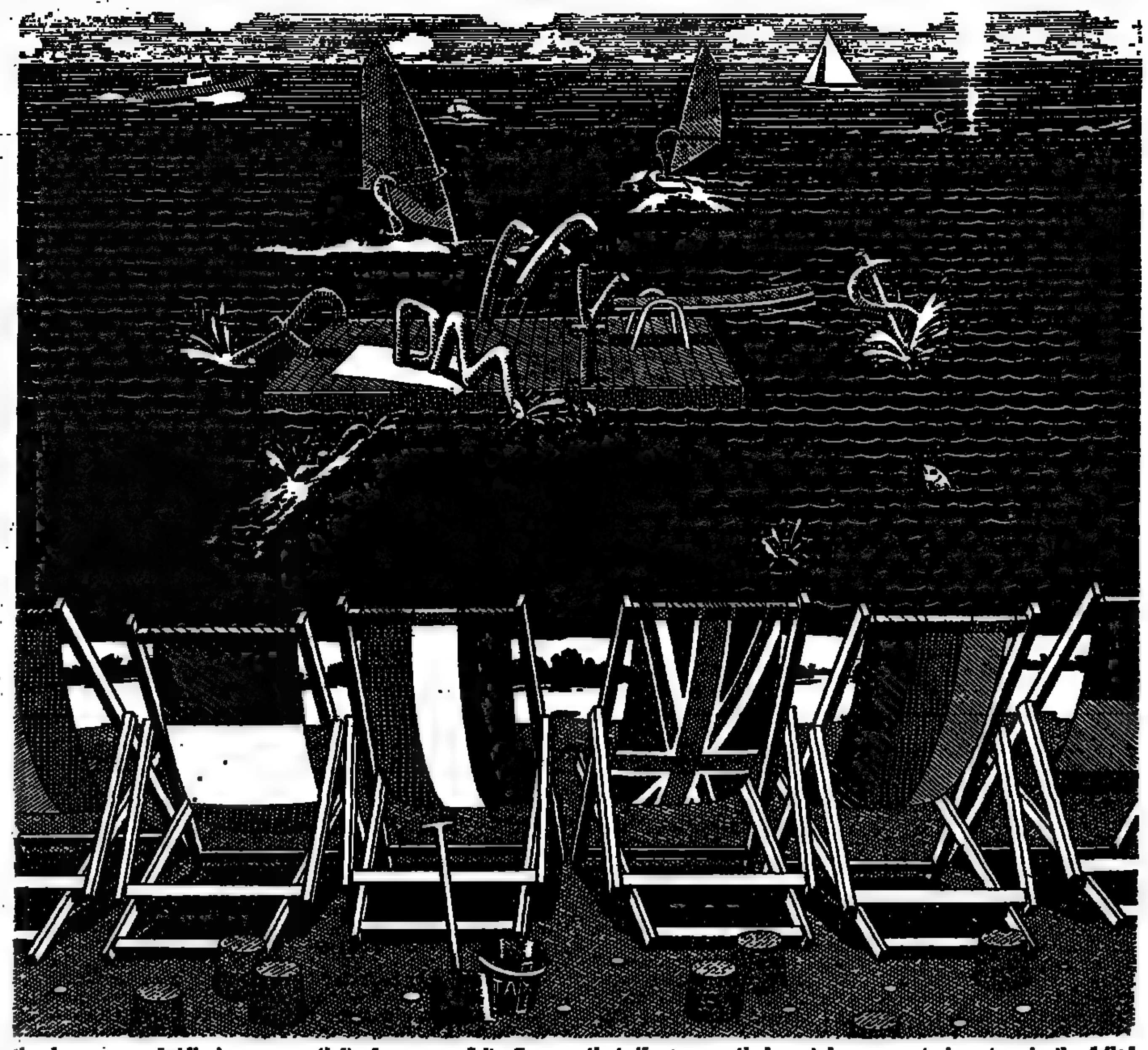
These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £5 each (including VAT and p+p; cash with order) from Anbar, 62 Toller Lane, Bradford, West Yorkshire BD8 9BY.

A FINANCIAL TIMES SERIES: Part 2

EUROPEAN FINANCE AND INVESTMENT

Offshore Centres

Vigorous growth in Europe's offshore financial centres serves to highlight the challenge to the European Community as it seeks to integrate its financial services industry without driving business away to centres outside the EC, says Barry Riley



Harder to keep a secret

THEY USED to be called tax havens. But the graduation of various isolated jurisdictions to the more dignified-sounding status of offshore financial centres is not simply an exercise in euphemism.

Tax-dodging remains discreetly evident. But growth in financial sophistication, and the advances in telecommunications facilities, have meant that many such centres are now firmly slotted into the international financial circuit. Most of them play host to the top names of international finance.

It is a booming business, especially within the European time zone. Centres such as Jersey, Luxembourg and Liechtenstein are bursting at the seams, allowing the slack to be taken up by a second wave of contenders such as the Isle of Man, Gibraltar and Dublin, the latter through its International Financial Services Centre.

Now there is a third contingent of hopeful havens. Malta, Cyprus and Madeira are among the islands which fancy their chances of joining Offshore Europe.

The offshore centres have profited from the internationalisation of business in general, and of employment in particular. Growing armies of expatriate workers and retirees have sought offshore facilities which are outside the tax jurisdictions either of their countries of origin or of residence.

Moreover the financial industry has found it possible to develop products and services offshore in a way which is not practical within the often cumbersome framework of mainland regulation. The reconciliation of domestic priorities with the increasing flow of cross-border business now poses major problems for many jurisdictions.

The conflict is looming large for the European Community as it prepares to open up a single market in financial services after 1992, and faces the risk that Luxembourg and Switzerland could turn out to be disproportionate beneficiaries.

Within single country markets, withholding taxes have proved extremely effective in countering tax evasion. Investors find it difficult to avoid taxes if they are deducted at source from interest payments or dividends.

From the point of view of the tax collectors it is much cheaper to deal with a relatively small number of financial institutions than with millions of taxpayers, even if the citizens are scrupulously honest in declaring their income.

But once an international dimension is created this cosy system falls apart. Foreign investors, or expatriates, will very quickly get tired of claiming taxes back from a mainland bureaucracy.

The current turmoil over the withholding tax on savings deposits in the UK amounts to an interesting case study. The tax is actually known as composite rate tax (CRT), and is charged at a rate slightly less than the 25 per cent standard rate of income tax.

The tax cannot be claimed back even by those savers with such low incomes that they are not liable to pay income tax. But now CRT, which dates back to 1894, is to be abolished before it can quite reach its centenary.

The change was promised in last week's UK Budget in order to head off a sudden scramble by UK building societies to set up offshore subsidiaries and branches in places like the Isle of Man, Guernsey and Gibraltar. The big banks already have such offshore facilities in place.

There has been a danger that the rigidities of the system would penalise those less alert institutions that only offered onshore accounts.

Independent taxation of married couples has triggered the CRT concession. When introduced next month it will mean that millions of people (non-earning wives) will be entitled to tax allowances on savings incomes. But until tax-free onshore accounts become available in a year's time they will be forced to use offshore accounts in order to receive gross interest from banks or building societies.

IN THIS SURVEY

- The impact of 1992 upon financial services; investment funds; banking; insurance..........page 2
- Individual centres inside the European Community: Luxembourg, Dublin, Gibraltar, Madeira; and outside the EC – Switzerland, Liechtenstein, Jersey, Guernsey, Isle of Man, Malta and Cyprus..........pages 3 and 4

Aside from taxation, there are also challenges to the domestic regulatory frameworks for the financial services industry. The control and supervision of investment and insurance businesses has in most countries been handled on an inward-looking basis. British unit trusts, for instance, have what is a peculiar structure by international standards.

In Germany, heavy-handed regulation has stifled innovation in the retail banking industry. In domestic terms, there may be very good reasons for these practices. But what happens when the citizens of such countries gain access to much more flexible and nimble financial regimes somewhere abroad?

Luxembourg, for instance, is a modest territory in terms of population and financial skills. But it has long attracted heavy investment flows from neighbouring states because of its casual approach to the taxation of investments. And while states such as Belgium have tolerated this in the past, now countries such as France, which have previously protected themselves through restrictions on flows across the foreign exchanges, find themselves wide open to the Luxembourg challenge because of the relaxations of exchange controls which have been required under European Community rules.

Whether this will prove to be a serious problem will depend on the level of tax morality.

In Britain, where it has been relatively easy for citizens to invest offshore for the past decade (but banks have refrained from promoting offshore accounts) tax evasion of this kind does not appear to have been a major problem. But it might be different in France, and especially in Italy.

Wise offshore centres will play down their potential for evasion. Jersey and Guernsey, for instance, have warned their financial institutions against promoting offshore accounts on the UK mainland, on the basis that there should not be unnecessary provocation of fiscal authorities in other jurisdictions.

Instead, the better established centres like to emphasise their ability to respond quickly to innovation, and to point to the service they can provide to mainland residents who wish to invest in, say, commodities and financial futures funds, or in the case of companies want to set up captive insurance subsidiaries.

Many offshore centres have come under pressure to put their houses in order in other ways. The US Government, for instance, has forced unprecedented co-operation from Switzerland in areas like the stolen fortunes of fugitive dictators, and insider trading deals.

Luxembourg has agreed that it will not apply its banking secrecy laws in cases where there is evidence of criminal activity by users of its financial institutions.

The Channel Islands have passed drug-trafficking laws which are similar to those of the UK mainland, and have also fallen much in line with investor protection legislation in the UK, so that the investment funds of Jersey and Guernsey are now subject to regulation in a way that they never were before.

Investors need to be aware that they nevertheless take greater risks when they go offshore, where they are usually, outside the scope of compensation schemes, and may become entangled with unfamiliar legal restrictions. It is up to mainland jurisdictions to make absolutely sure that the boundary between onshore and offshore facilities is clearly drawn.

Just before Christmas the UK Government agreed to compensate investors in the failed investment firm Barlow Clowes even though many of the accounts were held through Gibraltar rather than the UK. Expensive episodes like that could cause mainland jurisdictions to become irritated with the tiresome offshore centres. They might try to hit back by setting up onshore/offshore facilities. Indeed, the UK has done this

Continued on page 3

Barry Riley on moves to unify the European financial services industry

A formidable task

A SINGLE MARKET is the ideal, but the process of unifying Europe's fragmented financial services industry promises to be a formidable task, which is precisely why the financial sector has been left more or less till last.

It is not practicable to apply common external tariffs as for physical goods. So, in permitting unhampered financial flows from one member-state to another, it is hard to prevent capital moving freely to non-EC financial centres with equal ease.

Long struggle

The first rounds in a long struggle have already been fought. Deregulation will encourage the flow of investment capital to low tax centres, especially Luxembourg. Populous countries with relatively high taxes on investments, such as France, Italy and the UK, will tend to resist this.

If they succeed in imposing anti-avoidance measures they will damage Luxembourg's ambitions and will safeguard their tax revenues. But they may simply succeed in driving business to locations such as Switzerland and the Channel Islands. The markets in products such as cars, ball bearings and biscuits have been progressively opened up during the past 25 years. But key directives covering banking, investment services and life assurance are only now being developed, *and will not come into force before the beginning of 1993.*

The reasons for the tardiness hinge on jealously-guarded national restrictions in areas such as taxation, investment regulation and monetary controls. The first line of protection in the past has been an insistence upon exchange controls, so that investors have *been bottled up within their* own countries.

Progressively, these exchange controls have been relaxed, but there have remained severe restrictions upon the marketing of foreign financial products and services, so that only the rich or well-informed have had access to them. After the end of 1992, however, even these marketing constraints will to a large extent be lifted.

Tax is the most important problem. A common market in financial services really does not make much sense unless taxes are harmonised. Otherwise, investment business will tend to flow to the centre where the tax burden is least, to the exclusion of all other considerations.

It amounts to a big challenge to the leading EC member states, which have come to rely on the deduction of income tax *at source on investment* income as a means of securing the revenues due to the authorities. Such withholding taxes are very difficult to evade, and they are also much easier and cheaper to collect from a relatively small number of financial institutions and companies than from millions of individual investors.

Classic case

That is the posture of the bigger countries. But the "offshore" approach is to offer the citizens of such states an escape route. Luxembourg is the classic case within the EC. It has structured certain of its own taxes so as to exploit the opportunity for cross-border anomalies at the expense of its bigger neighbours.

This does not only apply to financial services. It also sets unusually low tax levels on petrol, for example, so that foreign motorists near its borders will be attracted to its petrol stations. Partly in consequence, Luxembourg citizens nevertheless suffer high levels of personal taxation: the grand duchy is in no sense a tax haven as far as its own citizens are concerned. But the calculation for a small country can be that selective tax breaks will attract enough mobile business to make such distortions economically worthwhile. There must also be a delicate calculation that such beggar-my-neighbour policies will not attract business on such a large scale as to prompt serious reprisals by the more populous states.

Ireland is attempting to exploit some of the same anomalies, although on a still more artificial basis through the creation of a carefully segmented International Financial Services Centre in Dublin. These privileged services are not available to Irish citizens, but only to foreigners.

The more populous member states have three means of countering a drift of financial business to places like Luxembourg. First, they can reform their own financial legislation to render domestic financial products and services attractive on an international basis, for instance by making them "transparent" to taxes. But this may increase the scope for tax evasion internally.

Secondly, they can attempt to impose a standard withholding tax on investment income throughout the EC. But attempts by the European Commission to promote a uniform Community-wide 15 per cent tax foundered last year, in the wake of a decision by Germany to scrap its own 10 per cent withholding tax imposed only a few months earlier.

The German tax merely succeeded in driving vast sums of money to adjoining Luxembourg, with the side-effect of depressing the exchange value of the deutschemark. If a tax had been imposed on Luxembourg too, hot money would simply have moved to Switzerland or further afield.

A third line of attack is to promote attempts to arrange the *automatic exchange of information* between the tax authorities of EC member states.

Harmonisation

Ultimately, a single market in financial services makes no sense without fiscal harmonisation. In due course, the EC will be forced to squash the attempts by smaller member states such as Luxembourg and Ireland to exploit the situation, and will be motivated to settle on a uniform withholding tax rate which will be low enough to limit the leakage of business offshore to tolerable levels.

Nevertheless, offshore centres will thrive, just as they do in the Western Hemisphere in serving the requirements of the American market.

Peter Gartland looks at investment funds

Practical limitations

IT IS now six months since European Community member states, with the exception of Greece and Portugal, were to have implemented a European Council Directive of 1985. The directive – "Undertakings for Collective Investment in Transferable Securities," or Ucits, if you prefer the less-than-cuddly acronym, aims to encourage a Europe-wide market in unit trusts (mutual funds).

The fact that even now Belgium and Italy, have yet to incorporate the Ucits Directive into their national laws reinforces the view that the single market in retail financial services is more of a slow burning fuse than a big bang. It may even turn out to be a damp squib.

While the Ucits Directive is exactly in line with the theory of 1992, there remain considerable practical limitations, principally the absence of fiscal harmonisation, and the wide range of individual country marketing rules to which promoters of Ucits funds have to adhere.

Despite these early problems, there are signs that Community-based "offshore" financial centres, principally Luxembourg but also Dublin, Gibraltar and Madeira, could develop an advantage over traditional non-EC centres such as the Channel Islands and the Isle of Man.

The actions of two major of the main internationally-operating fund groups, Fidelity and Flemings, support this view.

Barry Bateman, managing director of Fidelity Investment Services, is convinced Luxembourg will emerge as Europe's key offshore financial centre. "It's acceptable almost everywhere in the world," he explains, "and that's important for a company like ours with global ambitions."

Fidelity already has a Luxembourg range of funds which is currently marketed mainly in Japan via Japanese brokerage houses. Later this year, the company plans to target this range exclusively at the Japanese market place, and from September will be setting up a new Luxembourg umbrella fund to be marketed to international (non-Japanese resident) investors. Significantly, Fidelity will be merging its existing Jersey funds into the Luxembourg umbrella to form a core range of 20 sub-funds.

Mr Bateman says he thought long and hard about whether to base Fidelity's forthcoming umbrella fund in Dublin, Jersey or Luxembourg. He came to the conclusion it should be Luxembourg.

Fidelity regards Luxembourg as a marginally more acceptable investment centre than the Channel Islands in the eyes of UK investors, considerably more acceptable throughout south-east Asia, and essential in Japan where the Ministry of Finance will recognise only those funds which are marketed from OECD countries. Luxembourg is an OECD member; the Channel Islands are not.

Paul Bateman (no relation) is a director of Flemings which has $195m under management through Flagship, its Luxembourg-based Ucits umbrella fund. Luxembourg, rather than Jersey, has been the focus of Flemings new fund management activities over the last 18 months – "the relative balance has changed dramatically," says Mr Bateman, so that EC financial centres will have advantages over those outside the Community.

Flemings is about to move into new offices in Luxembourg with, initially, 24 staff. Paul Bateman says this number could easily rise to 100 in the next couple of years, whereas Flemings present Jersey staff complement might well shrink from 50 to 40 over the same period.

With such moves afoot, it would be tempting to conclude that the Channel Islands and Isle of Man are living on borrowed time as important financial centres.

Not surprisingly, it's not the way things are seen in the islands themselves.

Hugh Ward of the Jersey Fund Managers' Association points to an impressive 36 per cent increase in funds under management for last year compared to 1988 as evidence that Jersey is still growing. At the end of 1989, fund management in Jersey was a £7.5bn industry, nearly four times bigger than in 1984.

In the mid-1980s, a high proportion of the flow of fund money into Jersey came from the UK. Increasingly, according to Mr Ward, money is coming in from countries such as Taiwan.

Some Jersey gilt funds took a media battering last year when it emerged that capital values had been eroded in order to maintain dividend yields. The bad publicity was responsible for losing Jersey as many as 10,000 investors. The current claimed figure is 200,000.

Mr Ward says the island is looking at ways of achieving greater recognition, given that it is not an OECD member. Ultimately, though, he appears sanguine on this point. Jersey has a good story to tell, he says, and will look for business "in areas that are not too difficult."

Apart from Fidelity and Flemings, which have both clearly made up their minds which way trends are heading, many fund groups are still keeping their options open.

OFFSHORE BANKING

Strict secrecy prevails

WEALTHY individuals in droves are seeking the tax-free privacy of "offshore" numbered bank accounts. The main reasons are world economic uncertainty, high inflation and the collapse of communism.

Many of Switzerland's banks enjoyed record results in 1989 when the rest of the world was feeling the pinch of recession. Unexposed to Third World debt, they suffer from none of the write-off provisions facing US and British banks – "1990 is not going to get worse," says the Swiss Bankers' Association, whose 550 members enjoyed growth in volume of 15-20 per cent last year.

Offshore banks appear to be over their own bad patch: in the mid-1980s, bad publicity combined with lower taxes and conservative government in Europe and the near absence of inflation sent the fortunes of offshore banking into steep decline. The "collapse" of the Swiss franc undermined the country's image of rock-solid security. The Liechtenstein *stiftung* was suffering from too much good news.

Hard times made the offshore bankers more vulnerable to bad publicity: in various allegedly criminal operations, virtually every one of Europe's private banking centres was implicated.

The Guinness share-support scheme involved banks in Switzerland, the Channel Islands, and Bermuda; the BCCI drug trafficking scandal involved Luxembourg; the Barlow Clowes affair was headquartered in Gibraltar.

International pressure was increasingly brought to bear on the offshore bankers' cherished traditions of non-disclosure of account-holders. The US led the way with its attempt to prise open the bastion of banking secrecy – Switzerland – by invoking the Swiss-American Treaty on Mutual Assistance in Criminal Matters, signed in 1973. Since the treaty came into force in 1977, 500 requests for information in both directions have been executed.

In 1982, the Swiss agreed to break bank secrecy laws in cases of suspected criminality, including insider trading which became a criminal offence in Switzerland in 1988.

The Swiss dutifully disclosed the contents of accounts held *by the infamous, including* Ferdinand Marcos, Ivan Boesky and "Baby Doc" Duvalier.

Switzerland and Liechtenstein also instituted tough "due diligence" laws, imposing fines of up to SFr10m on banks who knowingly accepted criminals. Switzerland will introduce two money-laundering statutes on to its Criminal Code this year. The first *explicitly outlaws money-laundering*; the second requires that any organisation – bank or company – accepting large amounts of money must be able to identify the depositors.

The twin pillars of offshore private banking are the right to strict secrecy and the legitimacy of tax evasion.

Liechtenstein is keeping abreast of Swiss developments. This tiny Principality, whose three banks are members of the Swiss Bankers' Association, introduced its "due diligence" agreement in 1987 and amended it last year so that only Liechtenstein lawyers were able to declare account holders "fit and proper".

Mr Rene Ott, deputy managing director of the Bank in Liechtenstein, sees the move as fair retribution for Switzerland's earlier decision to exclude Liechtenstein lawyers from acting for Swiss bank account holders.

But none of this awesome litigation has seriously dented the twin pillars of offshore private banking: the right to strict secrecy, and the legitimacy of tax evasion.

Switzerland, Liechtenstein and Monaco appeal to the sophisticated, designer end of the market and the "old" money; less caché attends a bank account in Gibraltar or Andorra; while little Campione is really just an Italian Las Vegas.

The legal foundation for Swiss bank secrecy is the Swiss Federal Law 1934, introduced in response to Hitler's Economic Treason Act, enforced a year earlier. Two employees of a Swiss bank were imprisoned for two and four years in 1985 for transmitting information about customers to the French authorities.

But exchange of information about a bank account may lawfully be passed through double taxation agreements between two countries. Such a reciprocal arrangement exists between Switzerland and the US; between Monaco and France; and between Liechtenstein, Austria and two Swiss cantons.

No French person places his money with banks based in Monaco: the mere threat of the transfer of one's tax details to their country's tax authorities is an ample deterrent.

Switzerland, in common with most offshore banking centres, refuses to offer assistance to foreign governments in cases concerning tax evasion.

Mr Joerg Schwarz, legal adviser to the Swiss Banking Corporation, explains that "bank secrecy is the right of the bank's customer. This right can be waived by the customer. But such a waiver is only valid if the customer acts voluntarily and not under duress. Therefore waivers that were signed pursuant to a US court order may be invalid."

Mr Ott of Bank in Liechtenstein, puts it this way: "We feel we don't have to be blamed for being a tax oasis in a tax desert."

Offshore banking centres rival each other for position as the most secretive: Austria, whose "passbook" system is perhaps the most rigidly guarded, accuses Switzerland of relaxing its secrecy rules. Luxembourg jealously protects its bank secrecy and low tax status, despite European efforts to impose withholding tax on deposits in the EC's smallest member state.

Offshore bankers go about their business in calm recognition of an unwritten code of behaviour: keep your client's secret – a small indiscretion over a drink may ruin the offshore banker's career.

Paul Ham

The writer is editor of Offshore Adviser, the FT publication for offshore intermediaries

European banking secrecy and disclosure requirements: the record

■ [illegible]: First written reference to banking secrecy in the statutes of Italy's Banco Ambrosiano: "You are not to give information to other people, except to the (depositor), his attorneys and heirs, under penalty of losing office or greater sanction according to the opinion of the Vicar or the Council of Twelve.

■ [illegible]: Louis XIII of France issued a Royal decree stating: "Le secret bancaire est absolument necessaire dans les negociations de banque, change, commerce et finance."

■ 1933: Hitler unveils his "Gesetz gegen Verrat der deutschen Volkswirtschaft" (Economic Treason Act). Unrestricted disclosure requirements on German and Austrian banks leads to heavy outflow of funds to Switzerland.

■ 1934: Switzerland responds with a tough Federal Law, imposing heavy penalties and prison sentences for breaches of banking secrecy.

■ 1945: General de Gaulle, under Communist pressure, invalidates French banking secrecy for fiscal purposes. Heavy outflow of funds to Switzerland.

■ 1947: Austria re-introduces strict banking secrecy, and anonymous "passbooks" for account-holders.

■ 1959: European Convention on Mutual Assistance in Criminal Matters signed.

■ 1963: Switzerland becomes associated member of the European Economic Community. Swiss Federal councillor Wahlen underlines Swiss neutrality.

■ 1973: Treaty between the United States and the Swiss Confederation on Mutual Assistance in Criminal Matters concluded on 25 May.

■ 1977: The "Chiasso incident," or so-called Texon Scandal. Uproar as Swiss banks bail out Credit Suisse, on the verge of losing billions as a result of highly speculative transactions by its Chiasso managers. The scandal forces Swiss banks to *identify beneficial owners* before opening accounts. The US/Swiss Treaty comes into force.

■ 1984: Swiss voters throw out Social Democrat proposal abolishing bank secrecy in cases of tax evasion.

■ 1987: Swiss banks sign tough "due diligence" agreements. Banks taking on crooked clients can be fined up to SFr10m. Form "B" re-worded to allow lawyers to withhold client's identity where client is not engaging in investment and is deemed to be of reputable character.

■ 1988: Insider dealing becomes a crime in Switzerland, following the insertion of Article 161 in the Swiss Penal Code; huge drug money laundering operation unearthed at Luxembourg-based and Pakistani-owned Bank of Credit and Commerce International; Barlow Clowes siphons millions from investors through its Gibraltar subsidiary.

■ 1989: Luxembourg passes tough money-laundering law. Bankers shielding clients risk five years in prison and SFr50m fine; Austrian banks made to require identification of anyone depositing over $50,000; Austrian and Swiss parliaments prepare legislation curbing bank secrecy in cases of suspected *money laundering*.

■ 1990: Gibraltar's banks back new legislation governing financial services on the Rock.

■ 1990: Swiss extend their disclosure rules to any organisation accepting large sums of money; new Swiss money laundering laws to be introduced in July this year. It will make it a criminal offence to launder money, carrying a penalty of imprisonment of up to five years, with a fine of up to SFr1m, (£410,000).

Source: Offshore Adviser and Dr Amedee Schlumberger, Swiss Banking Corporation.

OFFSHORE INSURANCE

Grounds for optimism

OFFSHORE insurance began to develop in Europe not much more than a decade ago, when Swedish companies started to explore the potential of Luxembourg as a centre for subsidiary captive insurance operations, while at the same time British groups were discovering the scope for similar *initiatives in Guernsey*.

Since then, the Isle of Man has established itself as a rival to Guernsey, and more recently Dublin has appeared on the captive insurance map on the strength of the new International Financial Services Centre.

These are the big four in offshore Europe, although there are also captive insurance companies in places such as Gibraltar, Malta and Liechtenstein, and the Aland Islands in the Baltic recently boasted of their first capture.

At the end of last year, Guernsey was host to 174 captives, with a gros premium income of well over $1bn, and the Isle of Man and Luxembourg to about 80 each.

Captive insurance originally became popular amongst North American corporations using US time zone offshore centres such as Bermuda and the Cayman Islands. These techniques have subsequently been employed by many British companies – some two-thirds of the biggest 100 companies in the UK are thought to own captive insurance operations – but they are not so widely used on the Continent.

With an eye on the huge amounts of business now going through Bermuda, where premium volume topped $11bn in 1988, captive managers are optimistic about the scope for growth in Europe. It may be significant that among the first captives approved in Dublin last year was one established by the big German car group BMW, which is in a position to benefit from an exceptionally favourable double tax agreement between Ireland and Germany. Essentially, captives have been promoted by the leading insurance broking groups, as well as some specialist managers, as a means of developing relationships with large corporate clients which pay high volumes of insurance premiums – say of the order of $500,000 a year aggregating all classes. At this stage it becomes worthwhile for a company to set up a captive and deal through it directly with the wholesale insurance markets. It can be a natural extension of the type of risk management department which is *commonly operated by big* companies.

The offshore locations arise for reasons of regulation as well as tax. Onshore restrictions such as high minimum capital requirements can be avoided, as well as onerous reporting procedures.

As for tax, if income can be rolled up tax free then it can be more economical to build capital. But if profits are eventually repatriated tax may be payable in the parent company's home country, and indeed some jurisdictions insist that parents must bring home at least part of the earnings of offshore subsidiaries.

For larger captives the offshore advantages may not be so important, and the case was recently noted of a Guernsey captive which moved onshore to the UK.

As more centres have become established competition has intensified, however, and the tax breaks have become more attractive. At one time, for instance, Guernsey charged a 20 per cent profits tax, but now caps that at a modest ceiling. The Isle of Man charges only flat fees, and although Dublin sets a 10 per cent tax rate, double tax treaties *with several of countries* allow earnings to be repatriated without further charge.

Not all offshore centres can play. There must be a regulatory infrastructure and the presence locally of professional and managerial resources. This is a strength of Guernsey, which incidentally hosts the world's biggest aviation underwriting business, operated by Transglobe Underwriting Management.

In many respects captive insurance is a somewhat shadowy industry of variable economic substance. Many such operations amount only to minor book-keeping exercises, although there are mutual captives which handle business for whole industries, and other captives have grown to the position where they have started to transact genuine third party business.

Two of the European centres, Dublin and Luxembourg, are within the European Community, and so can offer potentially untrammelled access to the *internal market from the* beginning of 1993. Two are genuinely offshore, in the guise of Guernsey and the Isle of Man, and are outside the EC.

It is not clear that staying outside will prove to be a disadvantage, because captives essentially trade through the professional markets, and are not usually helped by the opening up of the retail markets. Moreover, the forthcoming insurance directive may impose restrictions on, for instance, capital resources, which might put the EC centres on the defensive.

Barry Riley

FT correspondents look at four centres inside the European Community: Luxembourg, Dublin, Madeira and Gibraltar

A strong bid by Madeira

IT IS TEMPTING to believe there is a software package available to offshore financial centres which teaches how basic marketing techniques can be adapted to suit the promotional literature of individual centres.

As part of this fantasy, one of the key marketing points is to stress the "strategic location" of the centre.

Even the island of Madeira, an autonomous region in Portugal with EC status, makes this claim. Madeira is situated 625 miles from Lisbon and more than 500 miles from the African coast. The politically-stable island is perhaps best known to foreigners for its fortified wine and for Reid's Hotel in Funchal, the capital, a hotel where afternoon tea on the terrace survives, even into the 1990s.

But Madeira the island is now making a determined bid to become a major offshore financial centre. It is only in recent years that Madeira has made a conscious effort to diversify away from its traditional reliance on up-market tourism. The Madeira Development Company which plays a pivotal role in the island's offshore ambitions says the aim is to offer international companies access to Europe as well as to Africa and North and South America.

Madeira's developing offshore activities can be grouped into four distinct categories: a free trade zone, financial services, offshore services of a non-financial nature such as trusts, and a shipping registry.

Dr Francisco Costa, head of the development company, is at his diplomatic best when he says all four are of equal importance. If one activity is to be more equal than the others, it could well be the free trade zone. Unlike many other offshore centres, Madeira has space to spare.

Its free trade zone is located on a 120-hectare site, half an hour's drive from Funchal and five miles from the airport. The six companies which have already set up in the free trade zone are from countries as diverse as Brazil and Lebanon, as well as from Portugal. They are engaged in activities as wide-ranging as textiles, foodstuffs, marble and electrical appliances.

A further eight companies whose applications are in the pipeline will add tobacco, minerals and wood products to the range of enterprises.

What's in it for these companies? A long tax holiday (until 2011) is the obvious incentive.

Under the heading of financial services, a total of eleven banks have applied to operate in Madeira's offshore financial centre. Banks which have so far received licences are mainly from Portugal, including Banco Pinto E Sotto Mayor and Caixa Geral de Depositos.

From France there is Banque Franco-Portugaise and from Guernsey, Lloyds Bank Fund Management. Lloyds has been in Portugal for 130 years.

Peter Gartland

Editor of The International, the FT's magazine for global investors.

Luxembourg stays resilient

REPORT BY TIM DICKSON

NO ONE can or should deny Luxembourg its success. Resilient in the face of changing circumstances, quick to exploit the opportunities of new markets, the Grand Duchy has built an enviable position as one of the European Community's leading financial centres.

Until the mid-1980s seen as a thriving if somewhat unsophisticated booking centre for international loans, Luxembourg is better-known today for its extensive private banking and mushrooming fund management activities.

The financial sector, indeed, has taken over from steel as the main engine of economic growth and today accounts for 15 per cent of gross domestic product (GDP), 9 per cent of the workforce, and 20 per cent of Government tax revenues.

For all the Grand Duchy's prosperity and outward display of confidence, however, experts acknowledge that the pace of expansion in this field will, and perhaps, should slacken.

Even Prime Minister Mr Jacques Santer in a recent interview said he is hoping for more "moderate" growth in banking after the hectic experience of the last 10 years.

This has put considerable pressure on existing infrastructure (bankers still complain about the delay in getting new telephone lines), created a shortage of properly qualified labour, and increased rents and other costs.

To some extent, the slowdown is inevitable because with 166 mostly international banks already on the Grand Duchy's 999 square mile territory, the number of institutions still anxious to get in is diminishing. But there is also a feeling that the country needs a period of consolidation ahead of what promises to be a more turbulent and challenging decade.

The dangers are on several fronts. Above all, Luxembourg will remain under pressure from its EC partners (notably France) to harmonise its banking regulations and level the European playing field as capital moves freely across internal frontiers.

Thanks in large part to Germany's change of heart, the Grand Duchy last year headed-off the grave threat of a common withholding tax, but the spotlight looks certain to remain on its policy of banking secrecy.

Though customers come to Luxembourg for many reasons, the knowledge that their national tax authorities cannot snoop is a powerful attraction.

Locals are confident that this citadel will never be breached – and they are probably right – but they remain apprehensive about the general chipping away at their historic advantages which the 1992 programme implies.

Luxembourg is also pausing for breath in the wake of the BCCI money laundering case – an episode which brought a mountain of unwelcome if not always fair publicity.

There seems little doubting the authorities' determination to ensure a "squeaky clean" image – bankers are squealing in protest at the criminal penalties they will face if they deal even unwittingly with a drug trafficker – but the whole issue points up the difficulty of striking a balance between the "light regulatory touch" and adequate supervision.

Incidents like the BCCI affair are a reminder that over-dependence on one sector is a dangerous thing. With the steel industry and light manufacturing both reasonably buoyant, Luxembourg has few short-term worries at the moment, but the Government is clearly hoping to encourage new interest in audio visual and exploit other "niches" like insurance in financial services.

Ireland builds a dual market

FOR HIGHLY-TAXED and exchange control-ridden Ireland to promote an "offshore" financial centre might seem something of a contradiction in terms. Indeed, the practicality of the whole idea depends on the ability of the Irish authorities to erect a fiscal ring fence around the International Financial Services Centre in Dublin.

There is also the question of the willingness of the other member states of the European Community to tolerate distortion of the EC's principles. While other countries are moving towards a single market in financial services, the Irish Government is constructing a dual market, by attempting to separate domestic and international activities.

The obvious parallel is with Luxembourg, and certainly Ireland is going after a slice of the booming Luxembourg market in offshore-type asset management, banking and insurance. But whereas Luxembourg has gone the whole hog, and applies, in important respects, a low tax regime to its financial services industry without regard to whether business is domestic or international, Ireland is attempting to have it both ways.

Albert Reynolds, Ireland's Minister for Finance, enthusiastically defends the Irish policy, but insists that the ISFC will not be developed irresponsibly – "we don't want to promote it as a tax haven," he says.

Mr Reynolds explains that its position on the geographical periphery of the European Community means that "Ireland will have a built-in disadvantage for some time to come." It is going to need special privileges, he argues, and the tax concession for the IFSC is one of them. The 10 per cent tax rate runs until the year 2000, and what will happen after that will be discussed with the European Commission this summer.

Rival offshore centres argue that the more successful the IFSC becomes, the less likely the Irish are to be granted an extension. That could impose a limited time horizon on Dublin's prospects.

But there could be an element of sour grapes in such views. So far, at any rate, Dublin's offshore venture appears to be going very well. At the last count, 98 businesses had been granted licences to trade at the new centre now being built on the old Custom House Docks Site. About half of these are already operating in temporary premises elsewhere in the city, prior to moving into the centre as various phases are completed over the next few years.

The very first unit, offering 100,000 square feet out of some 700,000 square feet under construction, is due to be occupied by the Allied Irish Banks Group next month. AIB plans to have 600 people working there within two years, in activities including treasury operations, international fund management and global custody services.

The centre is being energetically marketed around the globe by the Irish Industrial Development Authority, which is confident that another 100 firms will have been signed up within 18 months. Around 5,000 jobs could be created within the centre by the end of 1992.

A company tax rate of only 10 per cent is an obvious attraction. There is an additional advantage over Luxembourg in that in many cases there is access to Ireland's network of double taxation treaties with major countries, so that overseas withholding taxes can be reclaimed, and in some cases Irish profits can be repatriated without further tax, for instance to Germany.

Luxembourg does not have such treaties, so the benefits of the grand duchy's low taxes are only fully enjoyed on tax-free international investments, notably Eurobonds.

There are, however, other attractions at the IFSC. As a base for international financial operations it offers excellent telecommunications facilities, access to Ireland's abundant labour supply, and relatively low costs, certainly compared with London, Tokyo or New York. Moreover there is a promise that the Irish Goverment will move speedily to pass legislation to allow international financial services business to develop quickly, in a way that bigger countries find difficult.

This highlights a big selling point for the centre: that for financial companies around the world it represents an unrivalled entry point to the post-1992 single market. Dublin-based ucits funds can already be marketed through most member states, depending on whether national legislation is in place. By the beginning of 1993 the same should apply to life assurance, general insurance, banking services and securities trading.

Barry Riley

Opportunity for Gibraltar

GIBRALTAR'S chief minister, Mr Joe Bossano has been an enthusiastic promoter of the Rock's development as a financial centre since his election in 1987. He is also proud of his reputation for fast action and flexibility.

Not long after he came to power, executives from Credit Suisse pointed out to him that Gibraltar was not being used as a launch pad for international bond issues because of its uncompetitive stamp duty regulations. Mr Bossano had the law changed inside a month.

Gibraltar's financial appetite has not gone unnoticed in the outside world, but the headlines have not always been flattering. In the early summer of 1988, just as Gibraltar was recovering from the shock of three IRA suspects being gunned down on its streets, the Barlow Clowes fiasco became public and threatened to engulf Gibraltar in hostile publicity.

One of Peter Clowes' companies had used the Rock as a base to extract money, mainly from retired British expatriates living on the Costa del Sol.

The Barlow Clowes debacle revived memories of a scandal earlier in the 1980s when Gibraltar played host to a supposed insurance company which ran a large-scale scam based on the peddling of worthless Weimar Republic bonds.

One is not thanked for mentioning either of these misfortunes in Gibraltar nowadays. The prevailing mood remains one of seemingly genuine bewilderment that Gibraltar should shoulder any responsibility for Barlow Clowes International, coupled with a lack of recognition that it has a major task on its hands to win back credibility in the outside world.

That mood has been reinforced in the last few months since the UK Government finally decided to do the decent thing, by compensating Clowes' large army of small investors who suffered as a result of the Department of Trade's lack of vigilance. That move has given Gibraltar a further opportunity to absolve itself from any blame for what happened.

Gibraltar is perhaps on the point of a sea change, rather than merely a face lift. New financial legislation was passed through in the House of Assembly last year, to regulate business conduct and financial advice, including advertising and cold-calling. A separate Financial Services Commission Ordinance provided for the appointment of a Commissioner.

There is no reason why Gibraltar should not emerge as a serious financial centre provided it can nurture a determination to be looked upon as favourably by the outside world as it likes to regard itself from within.

Several big-name players are already situated on the Rock. Among its 24 banks are Lloyds, Nat West, Hambros and The Republic National Bank of New York. Barclays has been on the Rock for more than a century and, in a much-heralded move last year, Royal Bank of Scotland opened a branch as part of its European alliance with the Spanish Banco Santander.

Among other big financial names with a presence in Gibraltar are Norwich Union, Abbey National and Peat Marwick.

Banking has been a big growth area. Deposits from all over the world increased by nearly 200 per cent to £1.3bn between 1987 and 1989, according to the Gibraltar Bankers' Association. There are now 700 people employed by banks, compared to 300 in 1985.

Peter Gartland

Harder to keep a secret

Continued from Page 1:

for many years through its international promotion of the wholesale markets of the City of London, although it has not done so at the retail level, as Luxembourg has.

Offshore financiers insist that they do not encourage tax evasion, and that they offer valuable services to mainland clients.

For example, they argue that the European offshore centres collect investment capital from around the globe and channel it into Europe, whereas if it went to the Caribbean it would probably be invested in the US.

But if tax evasion is not widespread, and is not in fact an important commercial prop for offshore centres, why is secrecy given such a high emphasis?

Indeed, some jurisdictions threaten their bankers with jail if they disclose details of their clients' affairs.

In the coming years it is likely that this offshore bluff will increasingly be called.

FORTHCOMING FT SURVEYS

European Finance and Investment

THIS SURVEY is the second in a new series on European Finance and Investment. The first - on Ireland - appeared on February 19, 1990. Future surveys will include:

- ☐ NORDIC COUNTRIES - to be published on April 25.
- ☐ PORTUGAL - to be published on April 27.
- ☐ SPAIN - to be published in May.
- ☐ THE NETHERLANDS - in June.
- ☐ WEST GERMANY - in June.
- ☐ EUROPE: 1992 AND BEYOND - also in June.
- ☐ UK - in September.
- ☐ FRANCE - in October.
- ☐ ITALY - in November.
- ☐ TURKEY - also in November.
- ☐ SWITZERLAND - in December.

☐ *Advertisement inquiries for the above surveys can be obtained from Henry Krzymuski: The Financial Times, Number One, Southwark Bridge, London, SE1 9HL. Telephone: 01-873 3699.*

Here and on the next page, correspondents look at individual centres outside the EC

Swiss under pressure

SWITZERLAND is the offshore financial centre par excellence. An independent, neutral, politically stable community with a sound, freely convertible currency and a favourable location in the heart of Europe, the Swiss have been attracting and managing money for wealthy people for decades, if not centuries.

Their bank secrecy is embedded in law and they regard tax evasion not as a crime, but as a question of individual liberty. With secrecy paramount, one has to make do with conjecture rather than statistics in assessing the importance of the Swiss offshore market, but all informed guesses put it very high.

McKinsey's consultants estimated that private funds under Swiss management totalled between SFr1,300bn and SFr1,500bn ($850bn – $980bn) in 1986, equivalent to between a third and a half of the world offshore private banking market.

In conversation, bankers assume that there is now more than $1,000bn under management in Switzerland, of which roughly two-thirds is thought to be held on account for non-residents. Some 600 banks, domestic and foreign, and more than 4,000 companies, down to those comprising one investment adviser and a secretary, divide the business but McKinsey calculated that about half of the total was under the control of the Big Three banks, Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse.

However, the Swiss banking community has been uneasily aware for the last few years that their long-standing comparative advantages in the offshore banking game are being steadily undermined. It has become increasingly difficult to keep the Swiss offshore "island" isolated from the rest of the world.

De-regulation has allowed other financial markets to adopt the more liberal practices, such as unrestricted capital flows, which were once almost exclusive to Switzerland.

Politically, the Swiss are under pressure to conform with the fiscal and tax regulations and the competition rules that the 12 member-states of the EC are gradually putting in place for their single market in 1993.

Increasing international co-ordination to check fraud in securities markets and to combat the narcotics traffic by blocking channels, through which its profits are laundered, has necessitated some erosion of Swiss bank secrecy.

Over the past two years the relative weakening of the Swiss franc has been a disincentive to foreigners looking for offshore placements. This may prove to be only a passing inconvenience but, whatever the reason, bankers have been reporting a slowdown in the growth of funds seeking a home in Switzerland.

Against these negative aspects must be put the fact that Switzerland is more than a location for offshore banking; it is a sizeable, sophisticated international financial centre in its own right with one of Europe's biggest stock exchanges and a powerful market for bond issues.

It is a major marketplace for foreign exchange dealing and trading in precious metals. In other words, Switzerland is able to offer a far broader range of financial services than most other offshore centres. Another vital asset is the long-established tradition of personalised service for wealthy clients, most consistently illustrated in the practice of the Geneva private banks, which foreigners sometimes find difficulty in imitating.

William Dullforce

Isle of Man's dilemma

ON THE Isle of Man, the trial has just begun of the principals involved in the Savings and Investment Bank, which collapsed in 1982 with £42m of depositors' money. It is expected to take most of the coming months, providing a trickle of publicity throughout.

Irrespective of the merits or outcome of the case, the trial will inevitably draw attention to the perennial dilemma faced by governments in offshore centres: how to balance investor safety with commercial freedom for deposit-takers and fund managers?

Last year, the island's Financial Supervision Commission got the courts to shut down Trafalgar Management, a Manx-based trust administration business, after an independent inquiry into its affairs by Mr Peter Pell-Hiley, Peat Marwick's senior man on the island.

Publicity was a two-edged weapon: the island proved that its regulatory machinery had teeth, while prompting speculation outside about how and why the rotten apple was in the barrel in the first place.

Indeed, the prospect of this happening seems to have caused a fierce internal struggle at senior political level on the island before the Trafalgar case was brought to court.

A strong lobby, including some powerful native Manxmen, wanted things dealt with informally. A group with more immediately exercisable political power and led by Mr David Cannan, then the finance minister, insisted on the matter coming to the courts so as to force closure of the business and show that the regulatory machinery worked.

But other publicity then showed the two-edged weapon at work, not least since it associated the Trafalgar case with other events occurring about the same time.

Here was an operation rum enough to be shut down by the authorities – so was the Isle of Man really safe, especially when the island had just decided to allow "brass plate" banking, and Mr Mark Solly, a leading light of the Financial Supervision Commission and an expert on offshore law, had resigned and gone into private practice. In fact, Mr Solly and Mr Cannan were on opposite sides in the row about how to handle the Trafalgar issue. His departure left the commission in the undisputed charge of Mr Jim Noakes, a former Bank of England official brought in as banking inspector after the Savings and Investment Bank crashed. Mr Noakes is understood to have sided with Mr Cannan.

The Trafalgar affair almost certainly contributed to Mr Cannan's unpopularity in certain quarters, rocking the island's political boat. He was sacked as finance minister in a reshuffle of the executive committee, the island's cabinet, last December in spite of a series of innovatory budgets which many thought had made his position unassailable.

With the government's outwardly displayed harmony restored, things are quieter now, but where does that leave the balance between investor protection and the commercial freedom offshore centres use to develop their financial industries? The answer is that since the Savings and Investment Bank collapsed, the Isle of Man has steadily improved its regulatory machinery and the framework of law within which it operates.

The changes were enough for the island to be the first offshore centre to win designated status under the Britain's Financial Services Act – which meant that UK investors had similar protection as at home.

Ian Hamilton Fazey

On this page, FT correspondents highlight other individual centres outside the European Community

Liechtenstein: the home of 50,000 holding companies

The Principality benefits from a hard currency — the Swiss franc — a stable political environment, banking secrecy and a strong national economy, says JOHN WICKS

THE PRINCIPALITY of Liechtenstein was one of the world's first offshore locations. The tiny alpine nation, once one of the poorest countries in Europe, passed laws in the 1920s to attract "letter-box companies."

The idea caught on, particularly in the boom years, following the Second World War, and Liechtenstein became one of the classic tax havens.

Although no official figures are published, it is generally believed that there are today, some 50,000 or more holding and domiciliary companies – as compared in a country with a population of just over 28,000.

These offshore firms, most of them taking the legal form of an establishment, a foundation or a trust enterprise, pay minimum taxes, normally not exceeding SFr1,000 a year, and enjoy a high degree of anonymity.

There are a total of 33 company lawyers on the spot, available to carry out incorporation, look after administration and provide the statutory local director.

The country also benefits from a hard currency – the Swiss franc – a stable political environment, banking secrecy and a strong national economy. There are no signs of any fall in foreign demand for Liechtenstein's offshore services.

Although the lack of a company gazette and any statistics on capital movement or managed funds makes this hard to quantify, the Government in Vaduz has recorded a steady rise in corresponding fiscal income over the past ten years.

It seems logical to expect that at least some extra funds will have flowed into the country during the recent crisis in Panama and in the light as a result of moves in neighbouring Switzerland to clampdown on misuse of its banking facilities.

At the same time, Liechtenstein is continuing a long-standing policy aimed at turning away undesirable funds.

The Principality had been the subject of much negative publicity in a number of international scandals in the 1970s, especially notably the 1977 Chiasso affair in which over SFr2bn of clients' funds from a branch of Credit Suisse were improperly channelled via the Liechtenstein letter-box firm, Texaon Finanzanstalt.

In the wake of this, the three Liechtenstein banks signed the Swiss Bankers' Association's (SBA) good-conduct code later the same year.

In 1980, a radical reform of company law was introduced. This measure, aimed at combatting abuses of the system, was one of the conditions for the subsequent signing of an agreement with Switzerland, with which Liechtenstein had upheld a customs union since 1923.

It introduced Swiss monetary policy into the Principality and officially took Liechtenstein into the "Swiss franc zone."

Since then, Liechtenstein has been singularly free of major offshore scandals. Both the Government and Prince Hans Adam, who succeeded his late father last year, have long been keen on raising standards in the offshore sector at large. As important as this is to the national exchequer, Liechtenstein has moved far from the its poverty-stricken agricultural economy of the 1920s.

In proportion to its size and population, it is the most highly industrialised country in the world and, in terms of per capita earnings, doubtless the richest.

Now a number of further steps have been taken or are planned. In 1982, the Liechtenstein banks had refused to go along with a revised version of the Swiss "due-care" agreement because this no longer accorded the Principality's lawyers and trustees the same standing as their counterparts across the Rhine.

Last December, a new – and tighter – five-year code came into force in Liechtenstein for five years which, like the Swiss agreement, lay down strict rules for the identification of clients' funds and the avoidance of support for fugitive funds.

In the legal sector, preparations are in hand to draw up legislation against money-laundering and insider-dealing.

This again reflects recent developments in Switzerland. It is also planned to strengthen international legal facilities.

Elsewhere, the country's banking act is due for a complete overhaul. Moves here will be to extend the provision of the act to cover quasi-bank finance companies, and to give more powers to the existing Liechtenstein Banking Commission, as the industry's watchdog. There are no intentions to expand the banking sector, as such, by the granting of new concessions.

The Principality has only three banks, the state-backed Liechtensteinische Landesbank in Liechtenstein – which is controlled by a foundation of the reigning family – and Verwaltungs-und Privatbank. Unlike many other offshore centres, the country has no foreign-owned banks.

Indeed, the three Liechtenstein institutes are all very much integrated into the Swiss system. Apart from being subject to Swiss monetary policy under the 1980 treaty, they belong to the SBA.

Also, the bulk of offshore funds flowing into Liechtenstein, flow out again into Switzerland.

This means that the principality's banking system is far from being tied to the offshore business: the Landesbank is similar in many ways to a Swiss Cantonal Bank, serving largely local needs, while the two others engage in a wide range of business both on and off the balance sheet. Bank in Liechtenstein (BiL), in particular, has made a name for itself in recent years with operations in eight different countries.

As to captive insurance companies, Liechtenstein is not one of the better-known centres. There are a number of captives there, however – or at least based elsewhere with a beneficial owner in the Principality. Since there is no specific law on insurance, it is hard to say just how many captives there are, but the specialist captive-management firm, AARP Managements of Vaduz, puts the total at anywhere between 30 and 50.

Jersey facing hard decisions

REPORT BY BARRY RILEY

WITH a population growing at a rate of nearly 1,000 a year (totalling 82,800 in 1989), and greater political concern about perceived overcrowding, Jersey is facing tough decisions about the future. Its offshore finance industry is limited more than anything by the consequences of its own success.

Increasingly, the island compares itself to Switzerland as an international financial centre which, whilst being in Europe is outside the European Community. It is happy to see that rival centres such as Luxembourg and Dublin are trapped, to a greater or lesser extent, within the framework of EC legislation.

Potentially, Jersey has a great future. But there is a risk that it will shoot itself in the foot if it carries on burying its financial industry in a tangle of restrictions and red tape.

Already it is very hard for new financial institutions to gain entry to Jersey. Just conceivably, Jersey could leave room for rival centres to develop and to achieve the critical mass which might allow them to overtake it. Yet this threat is not posed by its immediate competitors, Guernsey and the Isle of Man, which face many of the same capacity problems and political pressures.

But first, Jersey's success story must be emphasised. It has developed within 25 years, and especially within the past 10, from being a minor centre used mainly by UK expatriates to a widely-known focus for worldwide financial business, especially in private banking, collective funds and offshore trusts.

The island plays host to rather more than 40 foreign-controlled banks. At one time it was an important offshore booking centre for international commercial loans, but today private banking predominates. As this business has taken up the running, deposit growth has accelerated, and total deposits grew from £31bn to some £40bn in 1989, about 60 per cent of this total being denominated in currencies other than sterling.

The door has been locked against new banks for several years, but the key has not been thrown away. Probably a substantial Japanese bank would be given a licence, on the basis that it would bring a new type of business to the island and broaden its geographical spread.

Recently, the two biggest UK building societies, Halifax and Abbey National, the latter now converted to a bank, have been allowed to buy their way into the island in order to set up bases for collecting offshore deposits.

Jersey's collective funds industry is also increasingly important. The Jersey Fund Managers' Association has reported that at the end of 1989 its more than 30 member firms were managing 165 open-ended public collective investment funds worth in aggregate some £7.5bn, a figure which had risen by 36 per cent during the year, partly in reflection of booming stock markets around the world.

This does not count closed-ended funds, which have been a buoyant sector recently, primarily through the growth of country funds launched by British and American promoters. These are thought to be worth several billion pounds, to be added to the open-ended figure.

There is some concern in Jersey that Japanese funds cannot be based in the island (the same applies to Guernsey) because of a requirement of the Japanese Ministry of Finance that any overseas domicile must be in a member country of the OECD. So Luxembourg has scooped this business in the European time zone, although Jersey and Guernsey are trying to persuade the Japanese that they have effective OECD membership through the UK.

At least this restriction only applies to retail funds, so Jersey has seen a useful growth in the local administration of funds owned by Japanese institutions such as life companies and securities groups.

Competition from Luxembourg has caused concern in another respect. Last year the European Community legislation on so-called ucits (undertakings for collective investment in transferable securities) became effective, and these funds can now be freely marketed in many EC member states.

Most Jersey fund management groups have parallel operations in Luxembourg, and at one time there were fears that many of them might decamp to the Grand Duchy. In the event, the appeal of ucits has waned a little, and only one or two unit trust groups have transferred completely. Most appear to find it worthwhile to set up Jersey distributors to market Luxembourg funds outside the EC.

Meanwhile, Jersey fund managers have been successful in tapping new sources of investment demand. Taiwan has been a particularly active focus for the marketing of funds recently, and firms such as Fidelity and MIM Britannia have made big sales there. Seven of the eight new funds announced last December were targeted at Taiwanese investors.

Besides the business in established funds, offshore investment interest in Jersey is also reflected in the high level of activity in private trusts and investment companies. For instance, around 1,500 private investment companies are formed each year, mostly for people resident outside the UK or Jersey.

Fund managers are also hopeful that a new type of offshore personal pension plan made possible by recent changes in Jersey legislation will also prove a popular product amongst expatriates around the world.

So business prospects are excellent, but the problem is to see how Jersey can provide the human resources need to cope with rapid growth. Some 10,000 people are estimated to be employed in the island's finance industry, and the figure has been growing at about 400 a year, although this growth is to be curbed in future. This job-management is being implemented through the Control of Undertakings Law, which enables Jersey's bureaucrats to monitor and control the numbers employed by any firm which wants to expand.

Expansion in Guernsey

Bank deposits surged from £10.2bn to £13bn during 1989

QUIETER and more genteel than its nearby Channel Island of Jersey, Guernsey was a little slower to make an impact in offshore financial services. In terms of employment, its finance industry is perhaps half as large as that of its neighbour. But it faces much the same problems of shortages of resources.

Like Jersey, therefore, it has to make some fundamental decisions about the degree of growth it will accept. This comes at a time when prospects appear very bright, with a new and expanded role opening up for Guernsey as an offshore Europe centre to enhance its previous orientation as a centre focused mainly on UK expatriates.

A year ago there was considerable uncertainty in both Jersey and Guernsey about the impact of the European Community's single market in financial services after 1992. There were worries that the Channel Islands could suffer from the emergence of a Fortress Europe concept, especially in relation to onshore centres within the EC, such as Luxembourg, Dublin and Gibraltar.

But now there is growing confidence that the islands' position under Protocol 3 to the UK's 1971 Treaty of Accession is highly favourable. Although they are within the EC's physical goods trade boundaries, in terms of the common external tariff, they are not bound by most most directives.

So long as the Channel Islands can maintain a clean and respectable image, therefore, they could be ideally placed to prosper just offshore from the vast EC market place, either collecting and channelling international business into the EC on a tax-free basis, or acting as a convenient offshore location for EC customers wishing to escape onshore red tape or tax burdens. Action has already been taken to improve the regulatory structure. A separate Financial Services Commission has been established under John Roper, a former Bank of England banking supervisor.

There remain two key problems. One is that an island such as Guernsey cannot afford to be seen as a tax evasion centre, still less a centre for money-laundering, or it may face a backlash. Secondly, decisions have to be taken about the volume and nature of the business that can be profitably handled on the basis of limited resources.

Recently, Guernsey's financial sector has been growing quite strongly. The island now has 69 registered banks, with seven more in the pipeline for the next few weeks, including Banco Santander of Spain and Bank Hofmann of Switzerland.

Bank deposits surged from £10.2bn to £13bn during 1989. This expansion reflects the current strength of the private banking sector in attracting business. It is also a consequence of the high level of sterling interest rates, which has boosted the appeal of offshore deposit accounts.

As for longer-term funds, Guernsey is in the process of preparing statistics for collective investment schemes which have been authorised under its new regulatory procedures, set up in the wake of the implementation of the UK's Financial Services Act. At the end of December, 123 open-ended schemes had been authorised, worth £2.5bn in aggregate. Of this total, 42 had the more demanding 'A' classification and 81 were 'B' schemes.

The main advantage of the 'A' funds is that subject to the approval of the Securities and Investments Board in London they qualify for marketing on the UK mainland under Section 87 of the Financial Services Act, and in fact 34 have gained SIB recognition so far.

This is by no means the full extent of Guernsey's fund management industry. Another 77 Guernsey open-ended schemes have still to be recognised, though not all are expected to survive the necessary restructuring, and some may be liquidated or move to another domicile. In addition, there is an important business in running closed-ended funds.

Elsewhere, the island also boasts a sophisticated offshore insurance industry, and claims to be the leading European centre for captive insurance companies. It attracted a net 18 new captives last year, and with another 4 recruited so far in 1990 the total is now almost 180. Gross premium volume is well over $1bn a year.

Finally, there is the buoyant business in offshore trusts. This is the least regulated and least documented area, and one which could prove sensitive for Guernsey if it should come under increasing pressure from the EC to co-operate in stamping out illegitimate offshore activities. But a range of different operators make a good living out of managing trusts, and they are likely to resist attempts by the authorities to interfere. Guernsey's finance industry employs 4,200 people, about a seventh of the total workforce. But pay in the financial sector is higher than elsewhere, and in conditions of over-full employment there is increasing resentment of the ability of financial companies to poach workers. A net 150 extra jobs are being created in finance each year.

There are also local worries about the numbers of skilled people who are brought in from outside to run the increasingly sophisticated finance businesses. Cheap loans to bank staff are also blamed for pushing up house prices. However, the finance industry has also created great prosperity, and is responsible for more than half Guernsey's business profits.

Ways are being sought to squeeze a quart into a pint pot. For instance, there is a current wave of interest in so-called "managed banks," following a concept which Guernsey has been promoting for several years but which is only now becoming popular.

Barry Riley

Cyprus has a long way to go

THE EASTERN Mediterranean island of Cyprus, which has a land area roughly equal to that of Lebanon or the state of Connecticut, has been one-third occupied by Turkish forces since 1974.

It is hardly a good pre-condition for President George Vassiliou's ambition to develop Cyprus as an offshore financial centre – but the plan has not been without success.

Guidelines governing the island's offshore banking sector were formulated as far back as 1981.

So far, 19 foreign banks have been granted a licence to operate as offshore banking units, (OBUs). They include Barclays, Banque Nationale de Paris, Federal Bank of the Middle East and Wardley – part of the Hongkong and Shanghai Bank.

An offshore banking unit, which is expected to operate as a fully-staffed operation, rather than a "brass plate" facility, may only transact business in foreign currencies with non-residents of Cyprus, and is entitled to various tax, customs and banking secrecy benefits.

Captive insurance operations and offshore trust business are very much part of Cyprus' financial scene, but it is perhaps best-known for ship registration. In 1982, Cyprus was ranked number 29 on the list of leading maritime nations. Now it claims to rank seventh, with around two thousand ships totalling 18.5m gross tons.

Several firms of financial intermediaries are located in Cyprus, providing investment, savings and insurance advice to expatriates in the Middle East.

Cyprus still has a long way to go in its drive to become a fully-fledged member of the offshore financial community.

In 1988, the Nicosia-based accountancy firm of Coopers & Lybrand, Ioannou Zampelas & Co. put forward a comprehensive set of policy recommendations, the most important of which was that a new legal and institutional framework should be set up to deal with all aspects of offshore business in a "positive and unambiguous way."

Action on this recommendation is still awaited although, according to Mr Antony Hadjiyossos, a resident partner of Coopers in Nicosia, the Cyprus Government has accepted his firm's recommendations and will be implementing the necessary legislation later this year.

Big names in Monaco

THERE is no shortage of heavyweight financial names represented in Monaco.

Among the 40-plus banks are American Express, Chase, Citibank, Credit Suisse, Grindlays and NatWest. They all rub shoulders with each other in and around Monte-Carlo's boulevard des Moulins. Mostly they offer discreet private banking services for Gucci-heeled lotus eaters on the Cote d'Azur.

Mr Martin Peake, manager of private clients at Lloyds Bank International in Monte-Carlo, provides asset management for "up-market retail clients" with a minimum of £50,000 to invest, although this figure is likely to rise in the near future.

Lloyds concentrates its client activities on foreigners in Monaco or non-residents, usually from outside France.

The London-based accountancy firm of Moores Rowland, which itself has an office in Monaco, suggests the principality is trying to balance its image as a playground for the rich by promoting itself more strongly as a serious offshore financial centre.

Leslie Livens, Moores Rowland's international tax partner, points out that whilst there is no personal income tax in Monaco (except for French nationals in certain circumstances), on the face of it corporations established in Monaco are taxed at a rate of 35 per cent. However, the taxable base to which the 35 per cent rate applies can often be significantly reduced through negotiation with the tax authorities. There are no withholding taxes in Monaco.

There are three other areas in which Monaco may have something to offer as an 'offshore' financial centre:

☐ The first is mutual funds. Legislation introduced in 1988 means that neither the Monegasque fund, nor its investors, are subject to any tax in Monaco on income or gains.

There are no exchange control limits.

☐ Secondly, Monaco is a popular centre for internationally operating companies to set up a co-ordination centre or "bureau administratif."

☐ Finally, according to Mr Livens, Monaco can be an ideal location for the locally tax-free administration of personal or closely-held investment trusts.

All quiet in Andorra

THE PRINCIPALITY of Andorra, tucked away in the eastern Pyrnees on the French-Spanish border, achieved fleeting notoriety among the financial community 18 months ago, when it was used briefly by Medallian-Trust, an itinerant share-pushing outfit.

Excitement over, Andorra went back to sleep again – or so it would appear, judging by the dearth of knowledge on this landlocked 'offshore' centre – "An – also" asked one puzzled tax-planner.

No such bewilderment from Eric Tomsett of Touche Ross, the accountancy firm. He knew sufficient about Andorra to say it had no financial infrastructure, no advantages in relation to other offshore centres, and his firm doesn't use it at all for international transactions.

Peter Gartland

Malta seeks wider role

MALTA'S attempt to cash in on the boom in offshore centres can be traced back to a change of government in May 1987. At that time, the Nationalist Government of Dr Eddie Fenech Adami took over the reins of power held for the previous 16 years by Mr Dom Mintoff – who was prime minister between 1971 and 1984 – and the Labour Party.

The change was significant. The Mintoff years were characterised by a realignment of Malta's relations with the outside world and an often abrasive approach towards Britain, which ruled the colony until its independence in 1964.

From an economic perspective, Mintoff was more interested in industrial development. In financial matters, his administration is remembered mainly for introducing merchant shipping legislation and licensing a subsidiary of the Italian Bancario San Paolo di Torino. In the words of one local observer, financial development was "not taken boldly."

Dr Fenech Adami came into office with a mandate to create a more open economy. Chase Manhattan was selected out of 17 applicants to undertake a study, following an international call for tenders. The outcome was an offshore financial centre which targets banks, insurance companies, shipowners, trusts and trading companies as suitable partners for the island's new role.

Supervision of all these activities comes under the umbrella body known as the Malta International Business Authority (MIBA) which was set up in June last year following the Malta International Business Activities Act, 1988.

A distinctive feature of MIBA is its International Advisory Committee, made up of senior business executives from, among others, Daiwa Europe Bank, the New York Stock Exchange and the Arab Banking Corporation. According to MIBA itself, the committee gives it added credibility on the world stage.

Companies approved by MIBA have to maintain a physical and functional presence in Malta, in exchange for which they pay five per cent income tax (no income tax for non-trading companies such as personal holding companies). There are no withholding or capital taxes and there is exemption from Malta's especially tough exchange controls, and stamp and customs duties. Banks and insurance companies of international repute are exempt from certain provisions of local banking and insurance laws.

Malta boasts a multi-lingual workforce, excellent climate, good communications, low crime rate and a European lifestyle at a reasonable cost.

Offshore companies have a legal right to recruit expatriate employees who pay a maximum 30 per cent income tax.

There is a strict distinction between onshore and offshore activities which, according to the authorities, will be eliminated "as soon as the right social and economic conditions prevail." What this means in practical terms is that Malta's registered offshore companies are legally segregated and must deal only with each other and with non-residents.

Malta may be the newest fledgling offshore financial centre, but Mr James Bonello of MIBA is anxious that Malta is not seen as "a desert island that has just started offshore business out of the blue." He claims Malta can offer an abundance of professional skills, not least from among the three thousand people currently working in Malta's onshore banking sector – "the skills are already here," he says, adding the hope that Malta will develop also as a captive insurance centre.

The reality is that 10 months after MIBA was set up, there are just 60 offshore companies, split equally between trading and non-trading ones. Chase Manhattan is in the process of setting up in Malta and, says Mr Bonello, "we are dealing with a number of enquiries."

Internationally, Malta's long-term aim is full membership of the European Community but, like Luxembourg and Madeira, without relinquishing its offshore ambitions.

Peter Gartland

ARTS

CINEMA

A weird route to love

A SHORT FILM ABOUT LOVE
Krzystof Kieslowski

DUST IN THE WIND
Hou Hsiao-Hsien

GEORGETTE MEUNIER
Tania Stocklin and Cyrille Rey-Coquais

THE CITADEL
Mohamed Chouikh

Krzystof Kieslowski's *A Short Film About Love* gives a whole new meaning to the phrase "neighbourhood watch." Peering through his telescope or binoculars at the sexy goings-on in a flat in a nearby apartment block, the 18-year-old hero of this riveting film is the Peeping Tom in all of us. Or Peeping Tomek in this instance. For the film is Polish and has been plucked and expanded to feature length from the same TV-born film series (based on the ten commandments) that gave us Kieslowski's brilliant *A Short Film About Killing*.

Once again the director uses his camera like a scalpel, slicing through the emotional innards of a story. While the earlier film searched for the psycho-social roots of hatred, in a tale of state murder and private murder, this film searches for the roots of love. Surely, we ask, it cannot grow from the sickly interest a young voyeur (Olaf Lubaszenko) takes in the thirtyish beauty (Grazyna Szapolowska) whose uncurtained windows reveal louche antics with boyfriends or fleeting glimpses of lonely joy and despair?

Yes: love can grow from that, suggests Kieslowski. If two people are destined to converge, never mind the weird routes by which they do so. Just as the boy Tomek is a pintsize urban Odysseus, his wistful wanderlust evident in the maps and globes strewing his bedroom, so the woman Magda is a Penelope besieged by suitors and weaving away (with mock-Homeric resonance) at a rug or tapestry in her spare moments.

When the two are thrown together by fate and the boy's persistence – to reach her front door he adds an early morning milk round to his day job as a post-office clerk – the woman is piqued rather than outraged by his voyeur confessions. Soon she is pointing her own psychic telescope into *his* soul, with initially devastating consequences.

Kieslowski takes and develops an inspired idea. The surveillance anxiety that sinks deep into any totalitarian country's spirit (this movie was made before the Eastern Bloc's recent "one bound and they were free" scenario) is transmuted into a love story. "Spying" and covert intrusion become the vocabulary of romance. The film is like *Rear Window* re-written by Kafka. It begins with malignant comedy: Tomek disrupting Magda's love trysts with devices like a hoax summons to the gas board (the gas men blunder in and ensure a major case of coitus interruptus). Then the movie grows into a tragedy-romance in which the New Age Romeo and Juliet are a pair of mismatched innocents, fighting towards each other across a landscape of soiled morality and stark urban geometry.

In a friendless and frightening world, the film tells us, we must not look for love in moonlit gardens or under Italianate balconies. It can be born out of farce or nightmare, out of guilt or shyness or misunderstanding. *A Short Film About Love* is a major film about life, love and the problems of living in a world that has become a maze.

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When was there last a week with no British or American feature films? But be not alarmed. Since we are all citizens of the world, you will find it no hardship to sit through movies from Taiwan, Switzerland and Algeria. Or to take in a British-directed documentary about a German film-maker. This last is Paul Joyce's splendid portrait of Wim Wenders, *Motion And Emotion*. Harry Dean Stanton, Sam Fuller, Ry Cooder, Peter Falk and Wenders himself are among those picking out the bones — and the luminous feathers — from movies like *Wings Of Desire*, *Paris, Texas* and *Kings Of The Road*.

After 2½ hours of Hou Hsiao-Hsien's *A City Of Sadness* last week, we are all equipped to sit through 100 minutes of his earlier *Dust In The Wind* (made in 1986 between *The Time To Live And The Time To Die* and *Daughter Of The Nile*). A Taiwanese boy and girl leave their home village to live in the big city. They seek work, independence and the finishing touches to their romance. But the city picks their lives and dreams apart, and the last, truly finishing touch is supplied by the boy's army call-up to remotest Qemoy.

On a second viewing of this film, impatience at its gloomy tale changes to wonder at the extent to which Hou Hsiao-Hsien manages to make that gloom un-gloomy. As in *A City Of Sadness*, the camera is awesomely immobile. (It moved three times by my count.) But the less the film helter-skelters about, the more you notice that each frame is filled with a wealth of life. The piquant chaos in the studio/home of a friend who paints posters; the open-air movie screen struggling against the wind in the village. And only Hou could find so much understated human comedy in the old grandfather, grumbling his alarms about "MSG" (Monosodium Glutamate) or strewing firecrackers like sonic confetti along a mountain path, as he escorts his army-drafted grandson to the village station.

The Swiss *Georgette Meunier*, directed by Tania Stocklin and Cyrille Rey-Coquais, is "a film which defies categories." Nonsense. I have a category for it: auto-destruct Fassbinderism. There are a few moments of surreal inspiration: the murderess heroine titrating away amid Frankensteinian test tubes, or her chemist friend's stick insects crawling over the frame as if let loose in the projection room. But mostly we bump along from tableau to tableau in a stiffly-written black comedy that tries to be postmodernist but succeeds only in being wearisomely camp.

Better to taste the unleavened earnestness, flecked with wit, of Algeria's *The Citadel*. An old wool merchant wants a fourth wife, on the reasonable grounds that three are not enough. The sky and landscape promptly, but quietly, explode with problems. Mohamed Chouikh directs with solemn humour and an eye for the visual rhymes that, in a land of mirage, man makes with nature.

Grazyna Szapolowska and Olaf Lubaszenko in Kieslowski's 'A Short Film About Love'

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In the annual all-comers back-patting competition just ended, America and Britain have been battling it out as is their wont each March. March, you recall, is the month of the mentally disturbed hare and the assassinated Roman emperor. The BAFTA and Oscar ceremonies seem an appropriate celebration of both these events. In addition to having strange, twitching creatures making speeches to assembled gatherings, these ceremonies honour a series of seigneurial old gentlemen whom they attempt to praise shortly before burying. Long may Akira Kurosawa, Lewis Gilbert and their like stay unburied: they deserve every affectionate accolade we can give, but preferably in less vulgar circumstances than we give them in.

But what sceptical soul could withhold a cheer for Daniel Day Lewis, carrying off two Best Actor prizes in one month? His acting in *My Left Foot* is a miracle; and it is reassuring to know not just that the age of miracles is still with us but that Hollywood and Britain can recognise one when they see one. Congratulations too to Freddie Francis (Best Cinematography, *Glory*) and Anton Furst (Best Design, *Batman*). Britain can still turn them out. Now all that is required is that Mrs Thatcher, Mr Kinnock or Mr Heseltine (delete the inapplicable) spend enough money in the 1990s to ensure that we encourage these growths in our film industry.

Nigel Andrews

English National Ballet gala

ALBERT HALL

We were at the Royal Albert Hall on Tuesday night to celebrate forty years of the *soi-disant* English National Ballet, known for a happy thirty-eight of those years as Festival Ballet. The company had an identity from the first moments that Alicia Markova and Anton Dolin initiated still memorable performances in 1950 under the aegis of Julian Braunsweg. The old classics, the staples of the Ballets Russes repertory, great star dancers: these were basic ingredients that went to the establishing of a company blessed with a devoted audience wherever it played. And whatever the ups and downs of the succeeding years, the character of the troupe remained secure, and as promising of delight to its public as its name. The loss of that name – a brusque and pretentious rupture with its own past as with its audience – seems to me symptomatic of the crisis that has lately overtaken the company. The announcement yesterday that Ivan Nagy is to be the company's new artistic leader prompts the hope that this distinguished dancer and director may bring about a restoration of the former name and the much-loved identity of the troupe.

The gala was, like all galas, more a matter for a laundry list of names than any extended comment. A first word of praise, though, must go to Keith Beckett (a former member of the company) for an impeccably staged evening, with a well-planned sequence of numbers, faultless lighting cues, nary a snarl-up visible to the audience. Given the difficulties of the hall, it was a major achievement. After the entry of the Shades from *Bayadere*, various firework pas de deux were let off, with the gentle glow of Carla Fracci's Juliet – in Cranko's staging that was made for her – touched by the absolute simplicity and youthfulness of her reading. Grandly potent the way she rewarded Paul Chalmer's Romeo with a single and still child-like kiss: Juliet's character wholly clear.

Though one should not make critical snarls on occasions such as this, I hereby register a small protest at the inclusion of the Béjart *Bolero*, where non-music is matched by non-dance, with Sylvie Guillem atop the table behaving with all the sexual incendiarism of a traffic warden on point duty. No wonder the attendant cohort of men looked stunned.

To open the second half, Karen Kain danced the Rose Adagio with four evening-dressed cavaliers from the former male stars of the company: Reid Anderson, Patrice Bart, Flemming Flindt and André Prokovsky. Jeanette Mulligan and Fernando Bujones sailed into the *Corsaire* duet, while Ekaterina Maximova and Vladimir Vasiliev were all feeling in Vasiliev's choreography to a Rakhmaninov *Elegy*. Michael Clark, dressed as for a meeting of prehistoric monsters, raced through a whirlwind Chopin *etude* which will repay another viewing, and Marcia Haydee and Richard Cragun were impeccable in the closing scene from *Onegin*.

Two items seemed to me of exceptional interest. Iulia Makhalina from the Kirov – ravishing in her length of line, still very young but already secure in prowess – displayed an authentic ballerina presence in the *Black Swan* pas de deux with Andris Liepa. And Maya Plisetskaya danced *The Dying Swan*. The record books will tell us that Mme Plisetskaya is in the autumn of her career. Memories recall the lightning-flash prowess of her Kitri, the pride of her Juliet, the vast tragic horizons of her Odette-Odile, and the incandescent beauty of her every interpretation. Her swan on Tuesday was entirely personal as a reading, a fight against encroaching darkness which seems to lie near the temperamental heart of this indomitable assoluta. I found it a compelling view of one of the century's great dancers.

A final moment brought many of the original artists of Festival Ballet to be greeted by their public, with Dame Alicia Markova still radiantly their centre. We owe them, and today's artists, and those of the years in between, enormous gratitude and affection.

Clement Crisp

The Max Festival

FESTIVAL HALL

On Tuesday, the biggest-ever survey of Peter Maxwell Davies' music was inaugurated by the Royal Philharmonic, with Paul Daniel conducting the First Symphony. Later in the Festival the RPO will be responsible for the Second and Third, too; but the First is the toughest nut, and their performance of it did them credit. Though a few members of the audience slipped away between movements (but politely, not shouting abuse), most will have been impressed – and tantalised.

What makes this "symphony" tantalising, and even downright deceptive, is that it proceeds on three familiar levels which here seem radically disjunct. One is orchestrated seascape-colour, evoking slow waves, stiff breezes, salt spray and even gulls: if your ear is held by that, as it might be in Rimsky's *Scheherazade* or the Sea Interludes from *Peter Grimes*, you miss the musical argument. Another level is suggested by the outward marks of a cumulative symphonic drama – expositions, tense "developments," parenthetical interludes, climaxes; and yet there *aren't* "themes" being developed nor harmonic tensions seeking for resolution, not in any familiar sense.

The third level is the one that satisfies (sophisticated) expectations: bold musical patterns, intricately worked – by 1977 Davies was deeply into Magic Squares – in ways that have very little to do with classical or romantic symphonising, but draw their inspiration from the isorhythmic counterpoint of the medieval masters. Heard in that way, the Symphony reveals its distinctive structure and its own kind of drama; and then the mock-"symphonic" gestures and even the pictorial effects fall into place too.

I suspect nonetheless that for many a listener those reassuring props meant to ease the way in, are liable instead to misdirect. That's not a musical fault, but one does have to learn to listen from a new angle; later, in the Second and Third Symphonies, Davies planted less ambiguous signposts to the real action. Here in the First, Daniel did even-handed justice to every level. The colours were astringent and bracing, the drama energetically prosecuted, the unfolding patterns at ground-level kept taut and lucid. The first trombone was eloquent in his prominent role, and the strings were brave everywhere except amid the high ledger-lines – where in this advanced harmonic idiom, the honest sharps and flats of tonal music tend to lose their bearings.

This performance, excellently prepared, doubtless enjoyed the lion's share of rehearsal-time. The brilliantly apt choice of *Tapiola* – late Sibelius, a Davies model – to begin the programme, and prepare our ears for the Symphony, was justified by Daniel's well-paced, well-balanced reading, but somewhat underplayed. To make first-time listeners recognise its true weight, it wanted more depth of tone and tougher intensity. In Chaikovsky's "Rococo" Variations (an engaging distraction, in the context) the cellist Yo-Yo Ma was marvellously colloquial, spontaneous and witty, the RPO self-effacing. His playful sallies in an early variation, inviting lively repartee, got only dutiful echoes from the violins; he twinkled hard to catch their eye, but they seemed not to notice.

David Murray

The Trackers of Oxyrhynchus

OLIVIER THEATRE

Alastair Muir

Jack Shepherd

From the cradle of our civilisation to the dossers of the South Bank's cardboard city is a journey that occupies the two hours' traffic on the Olivier stage. The satyrs of Sophocles' comedies are still here, but disinherited, their tails cropped, their hooves clipped, their detached phalluses peeping pinkly from plastic carrier bags. They are the louts and graffitists and vandals, contemptuous of their half-perceived lost heritage. They are the rubbish of society; but from its rubbish the truest judgements of a society can be drawn. Just as compost ensures life, so rubbish preserves.

Nowhere more so than in Oxyrhynchus, a hundred miles south of Cairo. Here in 1897 two typical late Victorian scholars discovered a treasure trove of papyrus from Hellenic Egypt. Tony Harrison's reworking (and then some) of Sophocles' satyr play, the *Ichneutai* ("Trackers"), starts here. Grenfell (Jack Shepherd, at his most delicately featherlight in unhinged scholariness) aches for some great literary discovery, but the crate marked "petitions" fills merely with unearthed appeals from the frightened, the threatened and the poor of two thousand years before.

Historically, Grenfell contributed instinct, intuition, visions, with the occasional nervous breakdown an inevitable concomitant. Here the cautious Hunt worries about his sanity; and with reason, for Grenfell is possessed by Apollo, his presence intimated by drum-rolls and an echoing murmur. Mr Shepherd switches from harassed servant to bullying god in quick fire dialogue as his split persona pursues itself round the stage.

So far the author's production has been evocative: on the brink of something momentous, aided by Stephen Edwards' percussive music with its short choral phrases and urgent solo syllables as sharp as mosaic fragments. The rhymed couplets have the buoyancy and effortlessness of Harrison at his best. With the re-emergence of Hunt from the scholars' tent, now Silenus in an orange-clay coloured body-stocking and sporting a tail and a dangling near knee-length appendage of the sort found in specialist shops in Soho, we plunge into a bluff Yorkshire update of *The Trackers*; and Barry Rutter, whose touch with the verse has been plodding and wooden, comes to life as he coaches the audience in the projected Greek text, as in a pantomime song.

A number of pleasures remain, notably the bursting open of nine crates to reveal the chorus of fine – er – upstanding young satyrs who break into an irresistible clog dance. This is Hellenic farce crossed with the Cloggies; and inevitably Brian Glover is there somewhere, a huge bald baby Hermes in a papyrus nappy who has made the first lyre from tortoise-shell and the guts and horns of Apollo's stolen cattle. After an hour the novelty of Yorkshire banter wears thin. One wonders where the play is going.

It turns to politics, in the broadest sense; and the bitterness of the half-brute Marsyas, flayed by Apollo for daring to play the flute – hence cultural élitism, repeating the pattern of social and political divisiveness until the homeless, the petitioners, the threatened are to be found outside Apollonian temples everywhere. Cue for projections of opera houses throughout the world, even the Royal National Theatre. The satyrs are rewarded with ghetto-blasters; the papyrus backdrop to which they owe their existence becomes a tramp's cover against the cold.

The ideas are wrenched together daringly but not always successfully. The one-act play could be cut, the thematic gear-changes smoother; and the symbolism is sometimes as clumping as the dancing. A likeable piece; but as fragmentary and as yet incomplete as the Sophoclean original.

Martin Hoyle

David Bowie

LONDON ARENA

Well, we asked for it. David Bowie's last UK tour three years ago had a been a disaster. The Brixton Boy hid a weak new album beneath cumbersome pyrotechnics which had him sharing the stage with inept dancers when he was not ascending and descending into the flies on a fork lift truck. It was as exciting as watching dockers unload cement.

This time he has gone spare. He has confined his material to the old days when he had hits – mainly songs of the seventies – and he is backed by a muscular four piece band which hardly fills a quarter of the London Arena stage.

The actual design of the show works a treat, a triumph of minimalism. There are two port hole shaped screens high above the action to enable those at the far back – somewhere around Watford – to see that Bowie is in indecently good shape, and during important moments a vast screen descends behind him,filled with filmed highlights of the songs. So for "China Girl" we get a feminine shape coming on strong and for "Lets dance" there is a trim blonde who, well, dances. The most blatant statement about Bowie then and Bowie now came during "Life on Mars" when the painted sullen face of the man in his Ziggy Stardust manifestation came on screen like a ghost from an exorcised past.

Dressed as smartly as a snooker player and looking happy to be fortysomething Bowie was having little truck with those dreadfully camp alter egos of his youth. Some of his adoring fans are still locked with Ziggy inside a drifting space capsule but poor old Major Tom is now given short shrift. For this is punkish Bowie rather than puckish Bowie. And that is why the performance was as woeful in its way as his last live venture.

His voice has almost gone, especially in the high register which make his chances of reaching the top notes in "Young Americans" negligible. He bottled out and shared the joke with the audience. But we might have survived a rasping, one note Bowie if the band had been a little more imaginative. Guitarist Adrian Belew, ex-Talking Heads, is definitely of the thrash school, splitting ears and quite disdainful of the subtleties in Bowie's music. He is actually a tuneful and imaginative song writer but here everything was bashed out like early Clash, even such a plaintive song as "Heroes."

There was a good run in the second half – when Bowie remembered to say "hello" – which included "Suffragette City" and "Rebel Rebel" but for the most it was an over-amped, battering ram of a performance, presumably designed to prove that Bowie still aches with street cred. On the way back the remix of "Fame" came up on the car radio, melodic, delicate, creative, a reminder of what might have been, what may yet be.

Antony Thorncroft

ARTS GUIDE

March 23-29

EXHIBITIONS

London

The Tate Gallery. Joseph Wright of Derby – a full study of the work of one of England's most distinctive painters of the 18th century. Daily until April 22, except Bank Holidays.
The Barbican. Scottish Art Since 1900. Daily until April 18.
The Royal Academy. Frans Hals – the great retrospective, already shown in Washington and due to go on to Haarlem, of the work of one of the greatest painters of the 17th century Dutch school. Until April 8.

Paris

Grand Palais. Soliman Le Magnifique. Closed Tue, Wed late closing, ends May 14 (42895410).
Musée d'Orsay. The Fragmented Body. Ends June 3, closed Mon, entrance Quai Anatole France (40494814).
Musée Carnavalet. Antique bronzes. Closed Mon, ends July 1 (42722113).

Brussels

Archives Générale du Royaume, Grand Sablon, commemorates Belgium's short-lived declaration of independence from the Austrian Empire and the subsequent power struggle between France and Austria for control of Belgium. Daily, closed Sunday, ends 31 March.
Musées Royaux D'Art et D'Histoire. The Enigma of the Easter Islands is partially deciphered in this exhibition of photographs and artifacts. Closed Monday ends April 29.

Ghent

Museum voor Schone Kunsten. Flemish Expressionism in a European Context (1900-1930) with works by De Smet, Ernst, Permeke, Van den Berghe and Zadkine. Closed Monday, ends June 10.

Antwerp

Koninklijk Museum voor Schone Kunsten. Belgian Painters of Country Life. Closed Monday, ends April 22.
Provincial Museum Voor Fotographie. Works of the British 19th century photographer William Henry Fox Talbot. Closed Monday ends April 1.

Venice

Palazzo Grassi. Andy Warhol Retrospective. Until May 27.

Rome

Villa Medici. Self portraits from the Uffizi – from Andrea del Sartoto Chagall. Thirty works from the collection started by Cardinal Leopoldo de Medici in the 17th century, marking changes in style and taste over 300 years. Until April 15.

Madrid

Fundacion Caja de Pensiones. Conceptual art: a perspective. Overall view of this relatively unknown movement which is nevertheless continually nourishing contemporary art production. Ends April 29.

Barcelona

Palacio Tinel. Baroque Painting in the Mediterranean. The Italo-Spanish festival brings together sixty 17th century works belonging to Spain and Italy. Velazquez, Murillo, Rubens, Van Dyck, Claudio Coello, Testa, Cavallino are but some of the great artists whose works can be admired. Ends March 30.

Berlin

Staatliche Kunsthalle, Budapester Strasse 42: Lasar Segall (1891-1957) around 350 paintings, drawings, sculptures and graphics of the Brazilian painter, born in Wilna, are to be exhibited until April 20.

Mainz

Landesmuseum. Marc Chagall (1889-1985). Around 106 of his works, not shown in public before, are only to be seen in Mainz until April 22.

Vienna

Kunstforum. Works by the Romantics, ranging from Caspar David Friedrich to Adolph Menzel.
Museum fuer Volkerkunde has a marvellously exotic exhibition called Jemen, focusing on the world around the Queen of Sheba. Ends June 10.

New York

New York Public Library. More than 125 documents of the Abolitionist Movement, including photographs, letters and rare books, display the spirit and drive of the long effort to free the slaves. Ends Sept 15.
Museum of Modern Art. In its serious, thorough way the museum gives its version of the history of photography, showing off earlier image-developing techniques along with 275 photographs. Ends May 29.

Washington

National Gallery. A joint Soviet-American collaboration brings together Matisse's fruitful and arguably pivotal work in Morocco during his visit in 1912-13 including 23 paintings and 45 drawings, among them the famous Moroccan Triptych from the Pushkin Museum, never before exhibited in America. Ends June 3.
National Gallery. Highlighting this decade's renewed interest in printmaking in America, the 100 prints comprise a special exhibit borrowed from the collection of Joshua P. Smith, among them works from major contemporary artists including Jasper Johns, Richard Diebenkorn and Alex Katz. Ends April 8.

Chicago

Chicago Historical Society. The Land of Lincoln does its most famous citizen proud in the exhibition A House Divided. America in the Age of Lincoln, with documents, mementoes and personal effects of the Great Emancipator.

Tokyo

Isetan Museum, Shinjuku. Impressionists and Post-Impressionists from the Fogg Museum, New York, including works by Van Gogh, Lautrec, Matisse and Picasso. The Japanese fascination with Impressionism continues unabated, so expect crowds.

SALEROOM

Sotheby's in London held its fourth annual sale of Scandinavian pictures on Tuesday night. It experienced mixed fortunes, totalling £8m but with over a third of the lots, in value, unsold.

However, the two most expensive paintings changed hands. A private Finnish collector paid a record £1.1m, at the top of the estimate, for a portrayal of a young ballet dancer slipping on her shoes, by Helene Schjerfbeck, who started painting on this theme around 1880 but completed this charming sketch in 1940.

A small symbolist landscape of 1901 by August Strindberg, the writer, was within forecast at £968,000. A portrait by Anders Zorn of the opera singer Jean-Baptiste Faure, an avid early collector of Impressionist pictures, sold for £770,000 while a Swedish dealer paid £550,000 for another Zorn of a woman in a forest, (unusually for Zorn she is clothed), and £440,000 for a watercolour by Carl Larsson of his sister-in-law reading a newspaper. A similar interior by Larsson, this time an oil, sold for £396,000, but buying for this popular Swedish artist was selective. The main casualty was a Zorn nude of a girl standing on a rock, bought in at £370,000, while a scene of a fox relishing two mice by the Swede Bruno Liljefors also failed to sell at £250,000.

Antony Thorncroft

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Mr Kohl and Mrs Thatcher

CHANCELLOR Kohl comes to Britain today for talks with Mrs Margaret Thatcher, at a time when there have been some strains in Anglo-German relations. The British Prime Minister has been overtly critical of the German Chancellor's approach to Poland, and neither Mr Kohl nor Mrs Thatcher have sought to conceal that they sometimes fail to hit it off in personal terms. They could have met much more frequently: there used to be arrangements for regular Anglo-German summit meetings, but they were allowed to slip.

One should not exaggerate the importance of all that. Bilateral meetings between European leaders are not what they were when Harold Macmillan would go off to see President de Gaulle or even when Harold Wilson went to Bonn for talks with Chancellor Kiesinger. This week Mr Michel Rocard, the French Prime Minister, had talks in London with Mrs Thatcher, and there was hardly any press comment.

Besides, bilateral relations have tended to become submerged in the wider context of contacts between all the members of the European Community. And, whatever their differences of temperament, Mr Kohl and Mrs Thatcher are unlikely to let Anglo-German relations get entirely out of hand. They have a mutual stake in working together.

Shared faults

Still, it is worrying that relations between them are not better. By no means all the faults have been on the British side. Herr Kohl's has not always been the easiest Government to deal with. There were times when he seemed repeatedly at odds with his coalition partner and Foreign Minister, Mr Hans-Dietrich Genscher: over detente and arms control, for instance.

Not so long ago Mr Kohl, successful politician though he is, seemed to have a bleak future. He has made a comeback as a result of the changes in East Germany. But the fact that he may now win the Federal elections in December will not necessarily make him an easier partner for his allies. Mr Kohl is on an upward curve, which can hardly be said of Mrs Thatcher at present.

The British attitude to Germany – not only in the Thatcher period – has sometimes been tinged with a mixture of fear and a sense of "Britain knows best." It took Mrs Thatcher a long time to understand that most Germans no longer want short-range nuclear missiles on their territory. There was an astonishing – if engagingly honest – admission by the Prime Minister in a newspaper interview this week that she had never even heard of Article 23 until recently. Article 23 is the part of the Basic Law that allows the states of East Germany to join the Federal Republic, just as the Saarland did in 1956.

American realism

Moreover, the balance of power within Europe has continued to change, not only economically. Mrs Thatcher no longer has the close confidant that she had in President Reagan. President Bush looks realistically to Bonn and Paris as well as London. It was he, not Mrs Thatcher, who found it easier to appreciate Germany's position on short-range nuclear weapons.

Again one should not exaggerate, but there is some danger that Britain will become increasingly the odd man out, posing as the guardian of a world that no longer exists. The factors which are bringing about a united Germany are a desire for prosperity and democracy on the part of the East Germans and for cultural integration on the part of all Germans.

Mrs Thatcher should welcome that, even though Germany will become stronger and Britain relatively weaker. The Prime Minister has always been good at asking questions, but she cannot expect the Germans yet to know all the answers.

Mr Kohl should explain yet again that it is not just a new Germany that is coming into being, but a new Europe. Bilateral relations will matter rather less than they did, but it would be a pity if Mrs Thatcher and Mr Kohl were to continue slightly to mistrust each other. They can repair some of the damage in the next day or so.

Free trade in North America

MEXICO'S MOVE to seek a free trade agreement with the US not only marks an end to the long tradition of haughty isolation from its northern neighbour that has left it poorer than it might otherwise have been. It is also a signal that President Carlos Salinas de Gortari is determined to build further on the economic liberalisation set in train by Mexico's decision to join the General Agreement on Tariffs and Trade in 1986.

The move is, on balance, to be welcomed by the international community. In prospect is a modest agreement compared with that in place between the US and Canada. Initially, at least, it is likely to concentrate mainly on the elimination of tariffs. This should allay fears that the move is part of a more general regional approach to trade policy and a threat to the multilateral trading system.

It would be hard for two countries at such different levels of economic development to agree to full trade freedoms, extending even to the services sector and to free mobility of labour. But even an accord to cut tariffs, and possibly end quantitative restraints, for example on textiles, would bring significant benefits to both sides.

An agreement would have large symbolic importance for Mexico, both politically and economically. It would help attract foreign investment that might otherwise be diverted to the reforming countries of eastern Europe. As they liberalise their own economies, these countries are likely to compete increasingly in world markets for manufactured goods with precisely the category of more advanced developing countries, to which Mexico belongs. Open trade with the US would give Mexico an edge against such competition.

Credible policy

More important still, the commitment to outward-looking economic policy should strengthen the credibility of Mexico's monetary and fiscal policy and help it to sell such policies at home. Such an anchor is becoming all the more necessary as Brady-style debt reductions weaken the constraints imposed by Mexico's $100bn foreign debt.

By signing an agreement that would help Mexico build up its economy, the US might also deal with one of the longest standing bilateral problems between the two countries – immigration. A free trade arrangement that produced a rapid increase in Mexican living standards would help stem illegal migration northward as well as develop a 90m-strong potential market for American firms.

The most immediate losers would be other Caribbean and Latin American countries with whom Mexico competes. Since most of these rely heavily on the US as an outlet for their exports, it is hard to see them viewing the prospect of a US/Mexican free trade pact with anything other than alarm.

Clear signal

The two countries could get round this problem by making membership of the agreement open to any country prepared to meet the obligations it contained. This would be a clear signal that the arrangement was not intended to be the basis for an exclusive trading bloc.

A school of thought in the US argues that free trade agreements are useful precisely because they stimulate more general liberalisation. It would be wrong, however, to see in this a justification for a general policy favouring bilateral trade agreements.

Any US/Mexican pact will be painfully difficult to negotiate and cause great anguish for Canada, not least because automotive parts, which are traded freely between the US and Canada, are also Mexico's biggest export earner in the US after oil. In any proliferation of free trade agreements the last one in always resents a new arrival. Old deals have to be reworked and this can quickly become impracticable.

Negotiations between Mexico and the US will make this clear. Even if they succeed, an exclusive US-Mexico trade pact can only be justified as an appropriate response to a special situation. A policy of creating an ever-growing number of distinct bilateral trade agreements cannot be generally applicable.

Hugh Carnegy considers the growing political consciousness of Israeli Arabs on the eve of 'Land Day'

Israel's second class citizens

Tucked away at the foot of the lofty ridge on which Nazareth is perched, flanked to the east by the mount of Christ's ascension and to the south and west by the verdant Jezreel Valley, Iksal seems a tranquil little place.

It is one of Israel's Arab villages. Or rather, it is a small town containing 7,500 people who belong to Israel's sizeable, though often forgotten, Arab minority. Iksal is one of the numerous islands of Arabs that remained – spread in varying concentrations the length of Israel from the Galilee in the north to the bedouin of the Negev desert in the south – when the Zionist tide came in 40 years ago.

On a bright morning, Iksal's twisting streets and clustered houses are quiet in the cool sunshine. Most folk have gone to work in Nazareth or Haifa, or in the neighbouring fields. The fraught atmosphere of the Arab towns and villages of the West Bank and Gaza Strip, for more than two years wracked by the *intifada*, the violent uprising against Israeli rule, seems a distant apparition, although the "Green Line" marking the border with the northern West Bank lies only a dozen or so miles to the south.

Such an impression will be abruptly fractured tomorrow when the Arabs of Israel stage an annual strike and a series of demonstrations on Land Day in protest at the appropriation of Arab lands by Israel. Since the *intifada* began, Land Day has become a day on which Israeli Arabs openly identify with their fellow Palestinians across the Green Line.

Land Day offers a glimpse of the smouldering discontent, now fanned by the *intifada*, that exists below the surface in the Israeli Arab community. It carries a challenge to the heart of Israel that may eventually prove as profound as the events which have drawn international attention to the occupied territories.

"The Arabs of Israel after the *intifada* are not the same as the Arabs of Israel before the *intifada*," says Saed Daroushe, the headmaster of Iksal School. "The main change the *intifada* has made on the spirit of Arab students is that it made them feel for the first time that they are part of the Palestinian people."

A class of 14-year-olds studying history bears out his words. At first they are slow to answer questions from an outsider. But soon hands are shooting up all round the room as pupils make their points in hesitant but adequate English.

"The Government think that their country is not ours. They say that it's their country, but all the world knows it's ours – that they have their nation and we have a Palestinian nation."

"I agree with the people of

the West Bank and Gaza. They are Arabs and we are Arabs. They are our brothers. We must feel with them."

Such comments do not mean Arabs in Israel want to move to the independent Palestinian state in the West Bank and Gaza that is the goal of the *intifada*. They are, after all, the last of the Arabs from the area that is now Israel who remain on their original lands and their attachment to those lands – though many have been confiscated – is great.

How are they to reconcile being both Palestinian Arabs and loyal citizens of Israel? It is a vital question because Arabs in Israel – including 140,000 living in east Jerusalem – number 790,000, or about 18 per cent of Israel's population, and their population growth rate is faster than that of the Jewish community. In the Galilee they form a majority.

Israel's growing Arab minority poses an uncomfortable challenge to the country's twin commitment to a Jewish State and the equality of all of its inhabitants

Lately, Israeli hopes have risen that a surge in immigration by Soviet Jews will redress this powerful demographic trend. But the fact remains that Israel's growing and increasingly vocal Arab minority poses an uncomfortable challenge to the twin commitment in its 1948 Declaration of Independence to "establish a Jewish State" and to ensure equality of rights to all its inhabitants "irrespective of religion, race or sex."

The extent to which the Arabs of Israel are importing the *intifada* from the West Bank and Gaza should not be exaggerated. Saed Daroushe, who sits in his office under a picture of Israeli President Chaim Herzog, says: "There is a red line that stops [the children] from doing the same things that happen in the West Bank every day. They know they are part of the Palestinian people, but they also know they are Israeli citizens."

Israeli Arab leaders recognise that open rebellion could well have disastrous consequences. Not least, they fear it would strengthen the calls by extremist Israeli groups for "transfer," or deportation of the Arab population. Never the less, there has been a four-fold rise in the number of violent incidents within Israel in the two years of the *intifada* and a strong rise in support for Islamic fundamentalism within the Israeli Arab community.

The Arabs' discomfort over their place in the Jewish state goes back to its earliest days. But today they are prepared to overlay long-standing complaints about social and economic inequalities with the broader national grievance.

Ibrahim Nimir Hussein, Mayor of Shfaram in the Galilee and Chairman of the Arab Mayors Council, says budgets for current spending for Arab towns are at best one third the size of those for Jewish towns. Average Arab unemployment is 15 per cent, he says, compared with the national rate of nine per cent. "Arabs only enjoy the leftovers from Jewish employers," he adds.

The most important factor in all these complaints is the issue of army service. All Jewish men serve three years in the army, with periods of annual reserve duty up to age 55. The vast majority of Arabs do not serve. The statute is there, but the army has never called them up, nor have the Arabs volunteered. It suits the authorities, who are concerned by the security implications of a large Arab contingent in the armed forces, and it suits the Arabs not to be forced to face their fellow Arabs in conflict.

The result, however, is to reinforce the distance between the Jewish and Arab communities. Not only are certain state economic benefits – and many jobs – automatically not available to Arabs, but the perception that the Arabs are not full citizens is strengthened.

Ehud Olmert, the minister for minority affairs from the hardline Likud Party, accepts the Arabs have "many sound arguments" about lack of financial support. But he is quick to attack what he sees as a "*growing stream*" of anti-Israeli political activity. Islamic fundamentalists last year won municipal elections of the second largest Arab town, Um El-Fahm. "This is not something Israel can afford to ignore for too long," he says.

He raises the ultimate Jewish fear that the Arabs want to repossess Israel. He seizes a scrap of paper and quickly sketches a map of the heavily Arab populated areas of the country, most of them close to the occupied territories. If Israel withdraws from the territories under pressure from the *intifada*, the inevitable next Palestinian offensive will be for the soil of Israel itself. "I think the impulse, the pressure, will be unstoppable."

Arab leaders say the opposite. Mr Olmert's chief adversary in the Knesset is Abdel Wahab Daroushe, brother of Saed, the Iksal headmaster. Acceptance of Israel will be strengthened by the emergence of a Palestinian state, he says. "It will be easier once we have a two-state solution. [Israeli Arabs] will stay and strengthen their integration. Those few who cannot behave according to that will move to the Palestinian state."

It seems clear that, beyond the *intifada*, Israel has another, perhaps more complex "Palestinian question" to answer. Israeli Arab demands, even if held to the call for full equality of status, or a degree of internal autonomy, amount to a call for the erosion of much of Israel's Zionist character in favour of something nearer a bi-national state.

In the meantime, the *intifada*-fuelled suspicion and resentment with which Jews and Arabs in Israel now tend to view each other is draining the store of goodwill available to lubricate the jamming gears of reconciliation.

BOOK REVIEW

Le Rouge et le Noir

LE SOULEVEMENT DU SERAIL
By Alain Boublil
Published in French by Albin Michel, FFr98

Just over a year ago Alain Boublil resigned as *Directeur de Cabinet* to Mr Pierre Bérégovoy, the French finance minister, "to defend his honour" in the Pechiney insider trading scandal.

After successfully suing a number of French publications for libel, the former industrial policy adviser to President Mitterrand has written his own account of the financial scandals which shook France.

Although Boublil sheds little new light on the scandals, his book offers a revealing insight into the tangled relationship between the state, politics and money and the profound changes in French industrial and business attitudes in the last eight years.

Boublil was always a controversial figure at the top of the élitist French administration.

When he resigned he said he had been disadvantaged because he was "neither a practising Jew, nor a freemason, nor a provincial, nor a *grand bourgeois*, nor a member of the influential French finance inspectorate, nor of one of the élite French corps."

Boublil was part of that band of merry Socialist militants led by Mr Jacques Attali, Mitterrand's economic and political guru. All took high office after Mitterrand's election in 1981.

Joining the president's team of advisers in the Elysée Palace, he soon became the *éminence grise* of the Government's interventionist industrial policy.

Boublil vigorously defends the decision to nationalise five of the country's leading industrial groups. Without nationalisation, he argues, France's chemical industry would have been swallowed up by international oil groups; Alcoa, the US aluminium giant, would probably have taken over some of Pechiney's activities with financial help from the state; the Thomson electronics group would have just become a defence arsenal; AT&T and Siemens would have secured more than half the French telecommunications market; and the Bull computer group would have become Japanese.

Nationalisation, he claims, saved the country from the pre-war prophecy of "an agricultural France in a Europe dominated by West German industry."

But the early years of Socialist government led to an orgy of intervention which finally provoked a revolt among the new state industry bosses in 1983. The revolt cost Mr Jean-Pierre Chevènement, the Industry Minister, his job.

It was the end of the old system of profits for the private sector and losses for the state sector.

Boublil says state industry leaders won the day when Mr Roger Fauroux, the current French industry minister but then head of the Saint-Gobain glass and pipes group, showed Mitterrand a questionnaire from the state administration asking him to list the number and makes of all the typewriters at Saint-Gobain. It had not been enough to force Mr Fauroux to divest Saint-Gobain of its electronic interests.

Even before the privatisation programme launched by the right-wing Chirac Government in 1986, the Socialists had started the process of modernising the attitudes of business by promoting a more international approach and encouraging foreign investment by French state companies.

While he defends Mitterrand's industrial policy, Boublil also paints a colourful picture of intrigue, back-stabbing and manoeuvring in the corridors of the Parisian administration and in the salons of the capital. The campaign against him when he became the finance minister's cabinet chief reflected the settling of many an old score.

Many people felt Boublil was moved to the finance ministry to orchestrate the new Socialist Government's efforts to break up the shareholdings of privatised companies set up by the Chirac Government in 1987-88. Boublil claims this is unfair.

Pechiney's acquisition of American National Can in 1988, coupled with its decision invest in a new aluminium smelter in the depressed region of Dunkirk was announced with great fanfare by the Government as an example of the international ambitions, dynamism and recovery of a venerable state enterprise.

The deal would have earned such accolades had it not subsequently become embroiled in an insider trading scandal involving one of President Mitterrand's personal friends.

Boublil soon became a leading figure in the affair. He had been on a yacht on the Mediterranean that summer when the deal was being negotiated. He consistently denied any wrongdoing. But the rumour and disinformation machine, well-oiled by the countless enemies he made during his time at the Elysée, gathered an unstoppable momentum of its own. His own penchant for the good life did little to help his cause.

At the end of the day, Boublil had become too big an embarrassment for the finance minister and the Socialist government. Boublil, who for years had skilfully pulled the strings of state industry, could only, in his own words, "watch, as a spectator, my own downfall."

Paul Betts

OBSERVER

Rittner goes early

■ Luke Rittner has resigned as Secretary-General of the Arts Council and leaves next month.

The suddenness of his going is more of a surprise than the fact that his departure comes less than half-way through his second term as paymaster to the arts.

Rittner, 42, is a charming, boyish figure, who developed excellent relationships within the arts world and hardly lost a client during his seven year stint. He was even more popular with his staff at 105, Piccadilly.

He got on very well with the former Chairman of the Arts Council, Lord Rees-Mogg, who would pop in on his way to his antiquarian book shop in Pall Mall, and left the running of the Council to Rittner.

A year ago, Peter Palumbo took over as Chairman. Although equally charming, he never hit it off with Rittner. Palumbo has a reputation of being closer to the clients, especially the managers of the big national companies, like the English National Opera and the Royal Shakespeare Company, than to his Arts Council colleagues.

The fact that he immediately renovated the Council's headquarters with art from his own collection and set up an office which he inhabited five days a week created a physical presence which was bound to cause frictions.

Rittner and Palumbo also fell out over policy. Palumbo went along with the plans of the Arts Minister, Richard Luce, to devolve the funding of the arts to the regions. Rittner believed it should stay under the control of the Council.

It was the announcement of the devolution plan this month which prompted the resignation. Rittner was unhappy, too, about the job losses this will involve among Arts Council staff, who will miss him badly.

Rittner left school early and has always worked in the arts. He started at the Bath Festival, then set up the Association for Business Sponsorship of the Arts, before being appointed by the Prime Minister to run the Arts Council.

His thin slight figure, honed by a long daily run from his Kensington home, which once resulted in a mugging in Hyde Park, will be missed at first nights, as will his garish ties. He has no job in line: £50,000 a year berths in the arts are rare. His likely successor is his deputy, Anthony Everitt, 50, who sided with Palumbo on the shake up in funding.

Hard times

■ Some readers' eyebrows have been raised by an advertisement placed by the Secretary of The Cavalry and Guards in The Times. He (she perhaps?) wishes to engage a private secretary: "Experience in hotels an advantage."

Experience in hotels? Whatever is the establishment coming to? One reader suggests that it would be fitting for the Cavalry and Guards Club to be seeking redundant young ladies from the Stock Exchange.

Prague prices

■ As members of the revitalised Czech Parliament yesterday debated a tough new budget which will slash subsidies to industry and agriculture, they dined on some of the country's most highly-subsidised meals in the parliamentary restaurant.

The dining room, operated by Karel Kosnar "and his collective" was placed in the suspiciously-low fourth category, which is normally a rating for the most run-down eateries. The most expensive meat dish was koruna 15.10 (barely 50 cents at the tourist exchange rate) and a bottle of pilsner beer cost a mere koruna 4.70. Scores of waiters scurried about to satisfy the demands of deputies, most of whom were appointees of the old Communist regime and who are unlikely to survive the first free elections in June.

At the modest Zlata Husa restaurant on nearby Wenceslas Square, which caters for Westerners, meat dishes averaged koruna 30 to 45 and it took 20 minutes to grab a harassed waiter.

Sporting life

■ Summit meetings are more relaxed on the other side of the Atlantic. President Bush is going off to Toronto next month for talks with the Canadian Prime Minster, Brian Mulroney, on what the White House describes as "matters of bilateral and international mutual interest".

There is not much doubt, however, that the main purpose of his trip is to watch the Toronto Blue Jays playing baseball. The President's trip coincides with their opening game of the season, which happens to against the Texas Rangers. Not only do the Rangers come from Bush's home state; they are also partly owned by his son, George.

Bush need not worry if Toronto is still shivering through the tail-end of winter. Since the middle of last year, the city's baseball fans have been spoiled by the SkyDome, the 50,000-seat stadium with a huge retractable roof, which can be opened or closed in 20 minutes. Among the stadium's other features is an hotel, some of whose rooms have a Royal Circle view of the playing field.

Of course, some would argue that a visit to Toronto to watch a baseball game hardly qualifies as a foreign trip for an American. The flying time from Washington is only 90 minutes, and Canada's main baseball teams play in the US league. But if the Canadians were not in the league, it would be rather more difficult for Americans to justify calling their baseball championship the World Series.

Tory gloom

■ Responding to a call in the Commons yesterday for more encouragement to be given to hymn singing in schools, Ian Lang, Minister of State at the Scottish Office, suggested "Lead kindly light amid the encircling gloom". Lang had a majority of only 3,673 – over the Scottish Nationalists – in his Galloway and Upper Nithsdale constituency at the last general election.

Some streak

■ Things were falling a bit flat at the Church fête, so Mrs Diddington-Smith decided to liven them up by doing a streak across the lawn. "Tell me," said one of her friends afterwards, "what was Julia wearing?" "I don't know," said another, "but whatever it was, it certainly needed ironing."

Time to bid farewell to the Louvre accord

Martin Feldstein argues that the G-7 policy of seeking stable exchange rates has caused nothing but trouble

When the G-7 Finance Ministers meet in Paris next month, they will inevitably reflect on the Louvre meeting just over three years ago where they announced a policy of seeking stable exchange rates among the dollar, yen and D-Mark.

If they assess the situation honestly, they will conclude that the Louvre agreement has failed and that the pursuit of stable exchange rates is responsible for many of the problems they now face: persistent trade imbalances, unwanted exchange rate trends, and rising interest rates.

The Louvre accord mistakenly sought to stabilise exchange rates at levels that implied continuing massive trade imbalances. At those exchange rates, the US trade deficit would narrow for another year after the Louvre meeting, in delayed response to the fall of dollar in 1985 and 1986, but the trade imbalance would then stop improving.

The Louvre agreement has been counterproductive because the goal of fixed nominal exchange rates is a mistake in a world in which inflation rates differ. There are three distinct but interrelated reasons for this.

The most obvious is that the combination of fixed nominal exchange rates and differing inflation implies changing real exchange rates. These, rather than nominal exchange rates, influence imports and exports. Fixing nominal exchange rates causes real exchange rates to vary in a way that has no economic rationale.

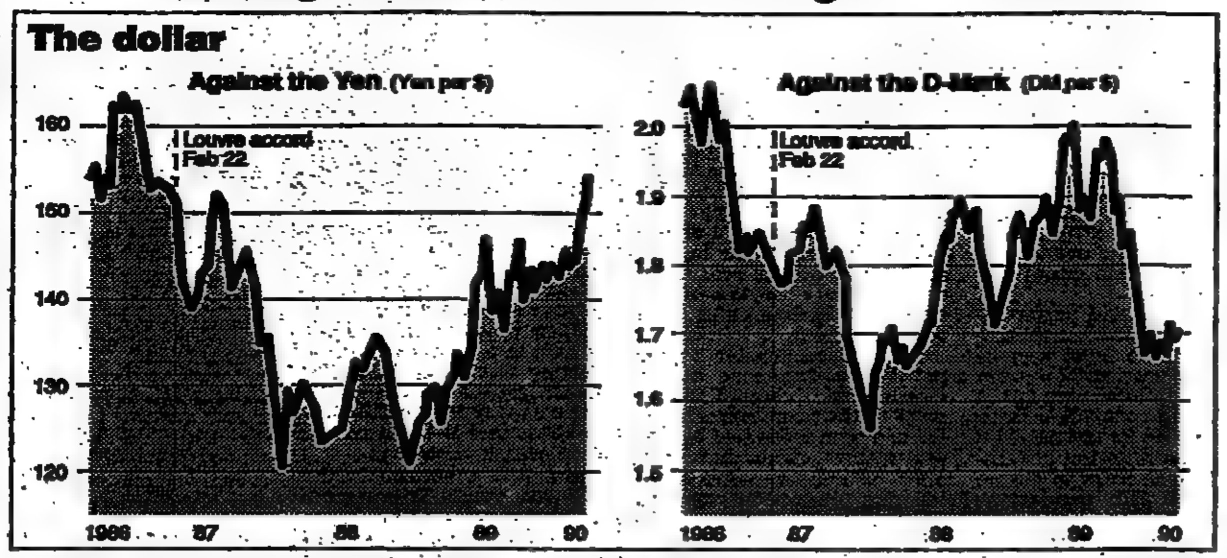
In practice, the initial overvalued level of the dollar in 1987 has been exacerbated during the past three years by rising US prices relative to prices in Japan and Germany. Maintaining even the same real exchange rates that prevailed at the time of the Louvre would have required the dollar to decline by about 3 per cent a year against both the yen and the D-Mark.

If an exchange rate of approximately 130 yen per dollar (the centre of the much-touted but never officially stated target exchange rate range) had been appropriate in early 1987, the corresponding rate today would be 120 yen per dollar. The existing exchange rate of more than 150 yen to the dollar means that the yen would be undervalued today by 25 per cent even if the initial level had been set correctly. Since the initial level of the dollar was already too high, the degree of dollar overvaluation is even greater.

It is not surprising that the massive US worldwide trade deficit declined by less than 10 per cent between 1988 and 1989 and is predicted to improve even less this year. The US bilateral trade deficit with Japan has remained unchanged at about $50bn since 1986.

But even the goal of a stable nominal exchange rate was doomed to fail. The reason again is the inappropriateness of fixed exchange rates in a world of unequal inflation rates.

When financial markets are functioning appropriately, a sustained difference in inflation rates implies a similar difference in interest rates. That difference in interest rates compensates portfolio investors for the inflation-induced loss of domestic purchasing power and balances the expected nominal depreciation of the higher-inflation rate currency.



But when investors believe that nominal exchanges rates will remain stable, the interest rate differentials cause the currency with the high inflation rate to rise. This trend takes the real exchange rate even further from the level needed to balance trade. That is exactly what has been happening in the past two years.

Although most analysts and market participants believed that the dollar was overvalued at the time of the Louvre meeting and would continue to fall as it had during the previous two years, the US backed up the G-7 call for dollar stability with a sharp rise in its interest rates in 1987 while Japan and Germany lowered theirs. That was enough to stabilise the dollar until the stock market crash in October 1987 caused the US to abandon exchange rate targeting and allow interest rates to fall.

But by early 1988, when the risk that the stock market crash would precipitate a recession seemed very unlikely, the Fed began tightening monetary policy again and the US and other G-7 governments returned to their calls for exchange rate stability. While some investors remained sceptical about the ability of the G-7 to stabilise exchange rates, the 1987 demonstration of a willingness to use massive shifts in domestic monetary policy to achieve the desired exchange rate stability convinced many investors that the major governments would somehow manage to stabilise exchange rates over a long period of time.

An investor who believes that exchange rates will remain stable will obviously want to buy the bonds with the highest interest rate. In early 1988, a long-term Japanese government bond had a yield of less than 5 per cent while a similar US bond had a yield of nearly 9 per cent. The resulting demand for dollar bonds inevitably increased the nominal value of the dollar relatively to the yen. Since early 1988, the nominal value of the dollar has risen 20 per cent against the yen and 10 per cent relative to a trade-weighted basket of major industrial currencies.

In short, a credible promise that the dollar will not depreciate makes it impossible to stop the dollar from rising when the higher inflation rate in the US keeps interest rates there higher than interest rates abroad. Although the higher US inflation rate means that the dollar should be declining in nominal terms just to maintain its existing competitiveness, the Louvre promise causes it to move in the opposite direction.

By the summer of 1989, the dollar soared to DM2 and nearly Y160. The G-7 Finance Ministers, at their meeting in autumn 1989, agreed that the level of the dollar was incompatible with long-term fundamentals. However, instead of sending a clear signal that they had abandoned the Louvre agreement, their communique restated their goal of dollar stability.

Although the communique was ambiguous, their massive interventions in the foreign exchange markets in the weeks after that meeting left little doubt that they wanted the dollar to shift down to the original target range. But after a relatively brief period of adjustment, the intervention stopped and the emphasis was, once again, on dollar stability.

Again the resulting market pressures have caused the dollar to rise against the yen. If this persists, the only result can be a further deterioration of the US-Japan trade imbalance.

The relation between the dollar and the D-Mark has, of course, been powerfully affected by events in Eastern Europe and the prospect of German unification. The outlook for a sharp rise in German exports to Eastern Europe caused a strengthening of the D-Mark and a rise in German real interest rates. More recently, the uncertainties and fear of inflation surrounding monetary union between East and West Germany has caused the D-Mark to decline a bit and nominal German interest rates to rise further. Now the US and German interest rates are essentially equal, removing any incentive to buy dollar bonds in preference to German bonds. But if the current transition period leaves German interest rates lower than US interest rates, the pressure for dollar appreciation will return and continue as long as financial markets believe that the US and Germany will not permit the dollar to depreciate against the D-Mark.

There is a third adverse effect of the Louvre accord. The expectation of stable exchange rates induces international portfolio investors to prefer bonds in the currencies that offer the highest nominal interest rates regardless of differences in domestic inflation rates. This not only causes cumulative currency misalignments but also pulls the nominal interest rates in different countries toward the same level, regardless of domestic inflation rates. This raises the real interest rates most in the country with the lowest inflation rate where monetary tightness is generally needed least.

This artificial convergence of nominal interest rates reflects both market pressures and government actions. When private investors sell yen bonds and buy dollar bonds they automatically raise yen interest rates and lower dollar rates. The Bank of Japan has been ratcheting up short-term interest rates in order to prevent a further decline of the yen.

In 1988, one-year yen interest rates were nearly five percentage points lower than corresponding dollar interest rates. Now the gap is only a little more than one percentage point. German interest rates have also soared, rising from about four percentage points less than dollar interest rates to slightly higher than dollar rates. The sharp rise in Japanese rates in the past few months has undoubtedly been one cause of the sharp sell-off of the Tokyo stock market.

In addition to the inappropriateness of fixed exchange rates in a world in which inflation rates differ, there is a more fundamental reason to reject the Louvre goal of fixed exchange rates. Economic conditions change over time in ways that warrant shifts in real exchange rates. For example, when world oil prices rise, countries that are most dependent on oil imports should see their currencies decline to achieve other offsetting shifts in imports and exports.

If nominal exchange rates cannot shift in response to such changes in potential import costs and export costs and export demands, the domestic economies must suffer unnecessary inflation or declines in economic activity.

When the Finance Ministers meet in Paris they should bid a subtle but unambiguous adieu to the Louvre accord. Their communique should reiterate their September statement that the dollar is now too high to be compatible with long-term fundamentals. They should note their desire for exchange rates to adjust gradually in the future in ways that reflect changes in national costs of production and in other fundamental factors that influence imports and exports. They might also acknowledge that they are determined to avoid the kinds of sharp swings in domestic monetary and fiscal policies that have caused unnecessary exchange rate volatility in the 1970s and 1980s.

The author was chairman of President Reagan's Council of Economic Advisers and is president of the National Bureau of Economic Research

LOMBARD

At risk: another 'far away country'

By Samuel Brittan

NEVILLE Chamberlain's remark at the time of Munich in 1938 that Czechoslovakia was "a far away country of which we know little" acquired notoriety. But its spirit has frequently been re-echoed as other small countries have been trodden down by powerful neighbours, with the West unable or unwilling to help.

One does not have to admire every latter day manifestation of nationalism, or applaud all the tactics of the new Lithuanian Government, to feel revolted at the way Soviet military might has been used to intimidate a small country which it conquered in the aftermath of the Stalin-Hitler Pact of 1939.

As Soviet leaders and generals blow alternately hot and cold, there is just a chance that a military takeover might be avoided. But one of the most distasteful spectacles is the way in which the Foreign Offices and State Departments of the West have been making allowances for President Gorbachev, almost whatever happens. Nor can we feel proud that Lithuanian leaders should feel that the West is preparing another Munich, and that the two governments that they single out for their muted response to Soviet actions are those of Sweden and the UK.

No-one is asking the West to go to war over Lithuania, any more than it should have done over Hungary, Czechoslovakia, Tibet or Afghanistan. But when Lithuanians say that stronger Western public condemnation of Soviet action to date might just help them, the least we can do is to respond.

This is because of the way that too many people in the West – including political leaders and their advisers, who ought to know better – have become besotted with Gorbachev. Wishful thinkers in the West have been too inclined to turn a blind eye to suppression and atrocities under the present Soviet regime.

The one sphere where matters have clearly improved under Gorbachev is freedom of speech, as viewers of Western television are well aware. But that achievement is being put at risk. Soviet television has already reverted to the old practice of presenting an entirely propagandist account of Red Army action without presenting the Lithuanian point of view. And if hints about expelling Western newsmen are followed up, we shall know the worst.

It is time to draw back from the present Gorbymania. As the veteran US negotiator Paul Nitze has pointed out, western interests are in specific hard-headed deals of mutual interest – in arms reduction, a German settlement, and so on. They are not in the survival at all costs of a particular Soviet leader.

Of course the crumbling of a great empire is fraught with danger. But because the areas conquered by the Czars and their Soviet successors are geographically contiguous to Russia, we forget that it is an empire, which will, go the way of all past empires however much one hopes that some parts will turn themselves into a genuine confederation, as the successor states to the Hapsburg empire ought to have done. The very least the West can do is to make it clear that if Lithuania is suppressed by the Red Army, relations with the Soviet Union will be on a strictly business basis; and that there will be no concessionary loans or other than strictly humanitarian aid. Institutions such as the new European Bank should then deal only with central and eastern Europe, leaving the Soviet Union to borrow and trade in world markets on whatever terms it can. And at the political level, any further summit should be cool and correct: no more. *There is a case for that anyway.*

Perhaps I should declare an interest. If my parents had not had the good sense to move to England before I was born, but had somehow survived the War, and probable subsequent deportation to Siberia, I should myself be in Lithuania – and I hope I would have had the courage to stand with the country's leaders while the Russian tanks rolled past. I would know better than to place too many hopes in western leaders helping in my predicament.

LETTERS

Lifting the lid on what companies do in the fight to survive

From Mr Andrew Campbell.

Sir, Christopher Lorenz's article on reshaping BP (March 23) is a superb account of management at work on the toughest issue in business – what sort of a company do we have to be to survive and what sort of company do we want to be.

It is a testimony to Bob Horton's courage that he opened the door of this Augean stable even before he was appointed chairman.

More companies need to do the same.

But what is it that Project 1990 has been doing?

Lorenz rather lamely describes it as thrashing out a new "organisational strategy," and in doing so he shows up a gap in our management language. "Organisation strategy" is much too left-brained and coldly rational a phrase to describe the hot-blooded and emotional process that is under way at BP. It is about a management team searching for a new identity, a new philosophy of management, a new "mission."

A much better phrase to describe Project 1990 is "mission planning."

BP is in the process of thrashing out a new mission, where mission includes purpose (why does that organisation exist?), strategy (how will the organisation excel?) values (what do we believe in?) and behaviour standards (what are our ten commandments?).

As more leaders recognise the importance of values of emotional commitment in organisation success, "strategic planning" is increasingly being replaced by the more holistic "mission planning" approach of Project 1990.

Andrew Campbell,
Ashridge Strategic Management Centre,
17 Portland Place, W1

Glass turns in good figures on recycling

From Dr W.G.A. Cook.

Sir, It was disappointing to see you doing down the ongoing success of British glass recycling in the waste management survey (Industry and the Environment, March 16).

Outdated statistics suggested a national glass recycling rate of 9 per cent whereas we estimate that 1990 returns will show a glass recycling rate of more than 20 per cent.

Furthermore, thanks to British Glass publicity surrounding bottle banks, Government legislation and a commitment by local authorities, supermarkets and other organisations to site bottle banks, we are now catching up with other major European countries.

With almost 4,500 bottle banks already in place, we are well on course to beat the Government's target of siting 5,000 bottle banks by the end of 1991.

We should also remember that Britain has retained very much larger multi-trip glass bottle supply systems for milk and beer than other European countries.

Almost 50 per cent of all drinks in this country are still delivered in this way, avoiding litter and waste, and reducing energy consumption. When 20 per cent recycling of one-trip glass bottles is added, Britain's environment performance through the use of glass suddenly looks good rather than just mediocre.

W.G.A. Cook,
Director General,
British Glass,
Northumberland Road,
Sheffield

Recalling the principle of Unripe Time

From Mr R.L. Payton.

Sir, Observer's observations (under the heading "Never ripe," March 22) on the debate about full British membership of the E.M.S. calls to mind F.M. Cornford's Principle of Unripe Time contained in his Microcosmographia Academica.

It is that "people should not do at the present moment what they think right at that moment, because the moment at which they think it right has not yet arrived."

Roger Payton,
Little Bedwell,
Essendon,
Hatfield,
Hertfordshire

Missing out on talent

From Mr Raymond Nottage.

Sir, You report (March 24) that a civil service scheme to recruit junior managerial staff from other employers for the first time has not significantly improving the pool of talent available to departments.

Readers familiar with the 1853 Northcote-Trevelyan Report on civil service staffing will not be surprised. I quote:

"A young man who has not made trial of any other profession will be induced to enter that of the civil service by a much more moderate remuneration than would suffice to attract him a few years later from the pursuit of one in which he had overcome the first difficulties and begun to achieve success; while to attempt to fill the ranks of the civil service with those who had failed elsewhere, and were on that account willing to accept a moderate salary, would be simply to bring it into discredit. It cannot be doubted that, even in the absence of proper precautions for securing good appointments, it is more probably that a fair proportion of eligible men will be found among a number taken at their entrance into life, particularly if pains be bestowed upon them after their appointment, than among an equal number taken after some years of unsuccessful efforts to open another line for themselves."

Raymond Nottage,
London, NW3

Export credit insurance is playing a vital role

From Mr Peter McGregor.

Sir, I cannot understand what Mr Adrian Hewitt of the Overseas Development Institute (Letters, March 26) is going on about. Does he want to see development in the developing countries or not?

If such development is to take place, credit will probably be required and this will not be forthcoming without export credit insurance. It is because of this problem, among others, that our members are currently doing 85 per cent of their business with developed countries. It was not always so in the past.

ECGD and its imitators in other countries were set up to take some of the risk which individual companies could not afford to carry and where the insurance could not be effected on the private market. This situation has not changed.

When we greeted with some relief the decision to allow the Projects Group of ECGD to continue to exist, we expressed doubts about the practical arrangements set in place by the Treasury with the object of making sure that it had no chance to do its job properly. We were told that we were being unnecessarily pessimistic. Cases which are beginning to emerge show that the effect of the fancifully titled Portfolio Management System imposed on ECGD by the Treasury seems likely to mean that if a country qualifies for aid it will be deemed to be too big a risk to qualify for export credit insurance other than at quite extortionate rates.

There is no sign that other European Community countries will follow this "lead."

If they do not, the Treasury will have succeeded once more in shooting the economy in the foot. But if they should follow it, the people who will really suffer will be those in the developing countries with whom no one with professional construction contracting competence will wish to do business.

Is this what Mr Hewitt wants?

Peter McGregor
Director General
The Export Group for the Constructional Industries,
Kingsbury House,
King Street,
London, SW1

FINANCIAL TIMES
Thursday March 29 1990

GATT PANEL REPORT

Japan scores victory over EC on duties

By William Dullforce in Geneva

JAPAN has scored a resounding victory in Gatt in its campaign against the European Community's decision to impose anti-dumping duties on "screwdriver" assembly plants.

The extent of Japan's success became evident yesterday when the full report of the disputes panel on the Japanese complaint was circulated to Gatt members in preparation for the council meeting on Tuesday.

The panel has ruled unequivocally that the duties imposed on Japanese electronic typewriters and other products assembled in the EC are inconsistent with Gatt rules.

The panel also decided that the undertaking the EC has forced on Japanese companies to ensure that at least 40 per cent of parts used in assembled products should come from outside the exporting country is illegal under Gatt.

If the panel's findings are approved by the Gatt council, Brussels will have either to abandon or drastically revise rules to prevent exporters from circumventing such anti-dumping duties by shipping materials and parts to be assembled in the Community.

An exporter "dumps" when he sells a product abroad at a lower price than that for which he sells it on his home market. In such cases, Gatt's anti-dumping code allows importing countries to impose punitive tariffs to protect domestic producers, but Gatt officials see the recent spread of anti-dumping legislation among its members as a disturbing recrudesence of protectionism.

Gatt's delegates expect a heated discussion in the council on Tuesday. Japan has won the first dispute it has brought for settlement to Gatt, but may still have to fight to have the panel's findings adopted in the Gatt council which acts by consensus. However, it would be difficult for the EC, which has in the past chided other countries, including the US, for not implementing Gatt findings, to block a ruling against itself if the large majority of the council votes in favour.

The EC will block approval and is likely to win support from the US and Canada which argued during the panel hearings that multinationals' new methods of manufacturing in several geographical locations should not deny importing countries the means to prevent dumping. Australia, Hong Kong, South Korea and Singapore have strongly backed the Japanese complaint.

After receiving the preliminary report, Brussels warned the panel that its rulings could set dangerous precedents: they would make all government measures against evasion of taxes and customs duties illegal under Gatt.

EC officials said yesterday that the panel had left governments with no legal way of solving the problem of circumvention of anti-dumping measures by exporting companies. Brussels had based its defence on a Gatt article allowing governments to take steps to ensure compliance with regulations that are not inconsistent with Gatt provisions. The panel made a distinction between "evasion" and "avoidance."

Penalties could be imposed if a company's action was clearly an attempt to evade duties which were legitimate under Gatt. But a commercial act by an enterprise to avoid an obligation from coming into existence – by importing a substitute product not liable to duty or by transferring production to the duty-levying country – was possible under Gatt, the panel ruled.

In their submission to the panel the Japanese stated clearly that increased investment by their companies in the EC had been motivated by several factors, including avoidance of import restrictions, locating production closer to markets, appreciation of the yen and concern about effects of the 1992 single EC market.

Hurd calls for full French role in Nato

By Ian Davidson in Paris

MR DOUGLAS HURD, Britain's Foreign Secretary, has urged that France should once again become a full participant in the defence of the west in any new arrangements emerging from the rethinking of Nato's role.

"Out of that rethinking," he said yesterday, "it is important that there should be full, full French participation in the new arrangements."

Mr Hurd's remarks were an Anglo-Saxon echo to comments made on television last Sunday by Mr François Mitterrand, when the French President referred to the prospective adjustment of Nato strategies and the need for more European defence arrangements. Mr Mitterrand explicitly acknowledged that "from now on the forms and the content of Nato will be profoundly modified," as if this might after all make a difference to French defence thinking.

Mr Hurd, speaking in Paris after a regular meeting with Mr Roland Dumas, the French Foreign Minister, would not say whether this question had been discussed between them.

However, he repeatedly underlined the usefulness of his increasingly frequent meetings with Mr Dumas, and the closeness of British and French views on many issues.

For nearly a quarter of a century, France has been the odd man out in Nato.

In 1966, President Charles de Gaulle took the country out of the integrated military structure of the Alliance after a dispute with the US and the other member states over Nato's nuclear doctrine. In political terms, however, it has remained a loyal member.

British Foreign Secretary Douglas Hurd (right) meets French Foreign Minister Roland Dumas in Paris yesterday

Mr Hurd said the west must rethink the future of Nato in response to the changes in east-west relations.

Some features of the Alliance should remain permanent, such as the presence of British and US forces on the Continent, but it would be necessary to reconsider Nato's policies, doctrines and structures.

The implication of his remarks yesterday is that the transformation of east-west relations, and the consequent adaptation of Nato's military doctrines, should create the opportunity for a rapprochement between France and its Nato allies.

Behind Mr Hurd's comments was the assumption that, in the new circumstances of Europe, with sharply reduced Soviet forces in eastern Europe, Nato will not be able, or will not need, to sustain its existing doctrines of forward defence at the West German frontier, and the readiness to be the first to use nuclear weapons.

The 1966 dispute was over Nato's adoption of the new doctrine of "flexible response" with nuclear weapons, which appeared to General de Gaulle to be a weakening of the previous doctrine of massive nuclear retaliation.

Subsequent French governments have repeatedly ruled out any return to the integrated military structures of Nato, largely no doubt because the Gaullist doctrine of national independence has proved politically popular and has appeared to preserve France from the emergence of any significant anti-nuclear protest movement.

EC allows UK to pay power subsidies

By Lucy Kellaway in Brussels

A LAST-MINUTE upset to the privatisation of the UK electricity industry was narrowly averted when the European Commission gave its permission for the payment of nuclear power subsidies.

The decision yesterday, the subject of much disagreement among commissioners, was taken finally on the grounds that the privatisation of the industry would help competition within the European energy market.

It will come as a considerable relief to the UK Government, which plans to introduce the new electricity market on Saturday, the "vesting day" when the industry in England and Wales will be transformed into 16 new companies. The threatened delay could have caused Whitehall a great deal of embarrassment.

Some commissioners were opposed to any further subsidies being granted to the nuclear industry, while others argued against the plan on the grounds that the UK was being given more favourable treatment on state subsidies than recently given to other member states.

It was even felt by some that the Community should not be subsidising the nuclear industry at all.

Three different types of nuclear aid were agreed:

- A £2.5bn ($4bn) guarantee against decommissioning costs of nuclear power stations;
- A "nuclear levy" worth some £1.15bn a year over eight years, under which consumers of fossil fuel electricity will subsidise nuclear electricity;
- A debt write-off of up to £1.4bn for the Scottish nuclear industry.

In a separate decision yesterday, permission was given for payment of large amounts of aid to the British coal industry.

Bulk coal contracts between the new electricity companies and British Coal – the subject of a complaint from small UK coal producers – have yet to be approved. However, officials said these contracts were likely to be approved shortly.

The decision to allow the payment of the nuclear aid was taken in the context of general efforts to open up the European energy market.

In justifying its decision, the Commission said the UK system brought competition into a previously closed system and increased the transparency of costs.

It also said Brussels had won concessions from the UK Government on ensuring fair access of Electricité de France to the UK market, and in reducing the period of approval for the nuclear levy to eight from 15 years.

The progress of aid paid over for decommissioning would also be monitored carefully by the Commission, it said.

Violence flares again in Natal townships

By Patti Waldmeir in Johannesburg

SOUTH African police sent reinforcements to Natal yesterday where rival black factions, ignoring recent calls for peace from Mr Nelson Mandela and other leaders, clashed in some of the worst fighting the province has seen in three years of conflict.

In a second day of violence, thousands of blacks armed with guns, spears, knives and clubs fought in the densely-populated black townships outside the Natal provincial capital of Pietermaritzburg.

"It almost looks as though the whole area is burning," said the local police spokesman, adding that police reinforcements from nearby Durban would assist troops and police sent in to quell violence on Tuesday.

Over the past two days, at least 11 people have been killed and more than 50 wounded in fighting which local reporters describe as the most widespread in the three-year conflict between groups loosely allied with Inkatha, the Zulu movement headed by Chief Buthelezi, and the United Democratic Front (UDF), an ANC affiliate. As many as 3,000 people are believed to have died since the clashes began three years ago.

Last February, the Government sent 1,000 soldiers into the province to reinforce a 600-strong contingent already in place. But neither the additional manpower nor appeals for calm from Mr Nelson Mandela, deputy president of the African National Congress (ANC), and Chief Mangosuthu Buthelezi, leader of the Inkatha movement, have been able to restore order.

The townships around Pietermaritzburg and Durban have seen the worst of the wave of unrest currently sweeping South Africa. More than 250 people have died in the six weeks since Mr Mandela's release from prison, the majority of them in black-on-black violence in Natal.

The mobs which ranged over the Natal hills yesterday, setting fire to at least 130 houses, seemed in no mood to heed Mr Mandela, who last month visited the province and appealed to the factions to throw their weapons into the sea and make peace.

The reported death toll in the current fighting is not high by the standard of recent clashes, but observers expect the number of dead to rise as more bodies are brought out of the townships.

It was announced on Tuesday that Mr Mandela and Chief Buthelezi, Chief Minister of the KwaZulu black homeland, would meet to seek an end to the Natal carnage. Mr Mandela would also hold separate talks with King Goodwill Zwelethini, the Zulu monarch.

However, the two sides appear to be having difficulty fixing a date for the meetings and community workers say they doubt whether a peace agreement between political leaders would be sufficient to stop the killing.

They note that what began as a politically-motivated conflict between the radical UDF and the more moderate Inkatha had degenerated to the point where revenge and pure criminality accounted for many murders. It was unclear whether either side owed sufficient allegiance to political leaders to obey a call to lay down arms.

- President F W de Klerk of South Africa confirmed yesterday that he would visit a number of European capitals as part of a foreign tour, including a meeting with Mrs Margaret Thatcher, the UK Prime Minister, in May or June.

Bid to smuggle nuclear triggers

Continued from Page 1

can trigger the primary explosion in a two-stage thermonuclear device," said Mr Mulhollin.

- Speculation was mounting yesterday over possible links between the Iraqi missile affair and the assassination in Brussels last Thursday of Mr Gerald Bull, 62, a Canadian rocket scientist and arms dealer who founded Space Research Corporation, a company that was last year linked to Iraq's network of European companies that were supplying missile-related technology with finance from the BNL loans.

Lithuania rejects Soviet talks

Continued from Page 1

with Moscow without such a guarantee.

Mr Gorbachev apparently raised an opportunity for direct contact with Mr Landsbergis in a speech on Tuesday night in which he called a meeting of the Federal Council for tomorrow. The council is an advisory body, created as part of the new presidential structure, which embraces the presidents of all 15 Soviet republics.

Mr Landsbergis, however, now considers himself the president of a sovereign state, not of a Soviet republic, following Lithuania's declaration of independence on March 11 – and thus would not naturally be part of Mr Gorbachev's council. However, Mr Kuznitskas hinted that the Lithuanian President might be tempted to attend if Moscow gave a clear pledge against further military action and if Mr Landsbergis was given an indication that the talks would make "some progress."

The Lithuanian deputy also suggested that Soviet recognition of Lithuania's independence might not be a precondition for preliminary talks. Such talks, he said, could deal specifically with defining the role of Soviet troops in the republic and with the question of border security.

Discouragingly, however, both Mr Kuznitskas and another Lithuanian deputy returned to the republic from Moscow last night, where they had fruitlessly sought talks with Soviet authorities, saying they had met no willingness to open discussions.

Diplomats in the Soviet capital also expressed dismay at the apparent lack of political will in Moscow for early talks. Most felt that Mr Gorbachev was content for the time being to play a waiting game.

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	F	13	55	Dallas †	Dr	12	54	Madeira	F	17	63	Prague	C	8	46
Algiers	F	16	61	Dublin	F	9	48	Madrid	S	12	54	Reykjavik	R	3	37
Amsterdam	C	10	50	Dubrovnik	F	[illegible]	[illegible]	Majorca	S	15	59	Rhodes	S	21	70
Athens	S	23	73	Edinburgh	F	7	45	Malaga	S	17	63	Rio de Janeiro	–	–	–
Bahrain	S	25	77	Faro	S	19	66	Malta	C	13	55	Rome	R	11	52
Barcelona	S	13	55	Florence	S	12	54	Manchester	F	8	46	Salzburg	F	9	48
Belfast	C	7	45	Frankfurt	R	5	41	Melbourne	F	20	68	S Francisco †	C	10	50
Belgrade	F	14	57	Geneva	R	4	39	Mexico City	–	–	–	Santiago	–	–	–
Berlin	S	11	52	Gibraltar	F	18	64	Miami †	F	21	70	Seoul	R	9	48
Biarritz	C	10	50	Glasgow	F	[illegible]	[illegible]	Milan	R	6	43	Singapore	S	32	90
Birmingham	C	8	46	Guernsey	F	10	50	Montreal †	S	-4	25	Stockholm	S	7	45
Blackpool	C	10	50	Helsinki	S	5	41	Moscow	S	5	41	Strasbourg	R	4	39
Bombay	F	30	86	Hong Kong	F	25	77	Munich	C	4	39	Sydney	S	28	82
Bordeaux	C	11	52	Innsbruck	F	[illegible]	[illegible]	Nairobi	–	–	–	Tangier	S	20	68
Boulogne	F	10	50	Inverness	S	[illegible]	[illegible]	Naples	C	12	54	Tel Aviv	S	20	68
Bristol	C	9	48	Isle of Man	F	7	45	Nassau	–	–	–	Tenerife	F	22	72
Brussels	F	8	46	Istanbul	S	[illegible]	[illegible]	Newcastle	S	8	46	Tokyo	F	17	63
Buenos Aires	–	–	–	Jersey	C	11	52	New Delhi	C	17	63	Toronto †	S	-3	27
Budapest	C	14	57	Johannesburg	–	–	–	New York †	S	2	36	Tunis	C	14	57
Cairo	S	25	77	Las Palmas	F	21	70	Nice	C	12	54	Valencia	S	16	61
Cape Town	S	24	75	Leeds	F	9	48	Nicosia	S	19	66	Venice	C	11	52
Cardiff	C	10	50	Lisbon	S	18	64	Oporto	S	16	61	Vienna	C	11	52
Chicago †	S	-1	30	Locarno	F	11	52	Oslo	F	9	48	Warsaw	C	7	45
Cologne	F	8	46	London	C	11	52	Paris	C	8	46	Washington †	S	1	34
Copenhagen	S	7	45	Los Angeles †	C	12	54	Peking	–	–	–	Wellington	S	20	68
Corfu	S	18	64	Luxembourg	C	[illegible]	[illegible]	Perth	S	26	79	Zurich	C	3	37

C–Cloudy. Dr–Drizzle. F–Fair. Fg–Fog. H–Hail. R–Rain. S–Sunny. Sl–Sleet. Sn–Snow. T–Thunder.
Noon GMT temperatures †

Single stock market plan

Continued from Page 1

It would enshrine the fragmented state of the Community's stock markets, reducing the liquidity demanded by large investors.

The French idea, he said, was not based on what the market's users wanted but reflected regulatory and technological considerations. He drew a parallel with the successful development of the Euromarkets for debt instruments, which had grown on the back of demands from users rather than "from a glimmer in the eye of a national regulator."

The London exchange has been promoting the idea of a market modelled on its own relatively unregulated SEAQ International, which already trades more shares each day than the domestic market in London.

Mr Hugh Smith suggested yesterday that a UK-German market would draw on complementary strengths. London could contribute technical skills in developing and running markets, as well bringing to the market big UK-based intermediaries, fund managers and companies.

Germany, by contrast, had skills in operating efficient settlement systems that have yet to be developed in London, while the investment power of its banks would be important to the development of the market.

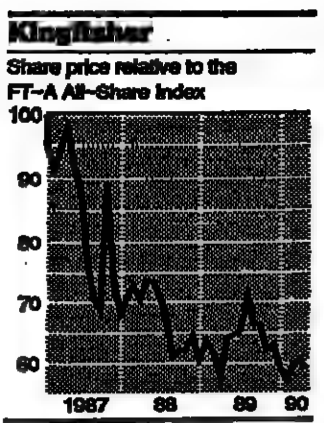
THE LEX COLUMN

A mixed catch for Kingfisher

The full year figures from Kingfisher are genuinely impressive, with underlying earnings up 15 per cent in the teeth of a consumer downturn. But the market, in its perverse way, is now asking where the company goes from here. The central issue is still the Dixons bid, on which the MMC is due to rule in a month's time. The betting is still against Kingfisher getting clearance; and the company is naturally keen to stress that it might not proceed even if allowed to.

But it is otherwise hard to see last year's improvement being repeated. The fall in profits at Comet – at 30 per cent, closely in line with that forecast for Dixons – may be hard to recoup. The margins improvement at B&Q and Superdrug must be finite. Profits from property development – still largely dependent on the retail market – may not be sustainable. Excluding property, market expectations for earnings growth are now down in low single figures, putting the shares at 289p on a multiple of under 10.

The company meanwhile insists that UK retailing is suffering not from a mere cyclical downturn, but from longer-term structural imbalances which make it necessary to discriminate carefully between growing and declining markets. It is doubtless true, as claimed, that DIY and electrical retailing still qualify as growth areas; and even if the immediate outlook remains murky, it is hard to see the shares as expensive. But the paradox is that if Kingfisher is denied Dixons – or turns it down – the market may simply fall back on wondering what it might go for next.



Hawker Siddeley

It is hard not to sympathise with Hawker's bold rethink of its destiny. The relative stagnation in its profit margins since the mid-1980s, during which time its sales have been growing at barely 8 per cent each year, have suggested for some while that something radical was overdue if Hawker was to ensure its future in world electrical markets. For the time being, though, Hawker's gear-change from defensive cash flow generation into a new acquisitive mode may keep its shares trading at around their present sub-average multiple of 10 times 1989 earnings.

Yesterday's 1989 results already show how Hawker's character is being altered. The figures were frankly rather dull. True, the £9m swing into the red in power contracting tells much of the story behind the reduced impetus of Hawker's taxable profits, which rose 10 per cent to £202.1m. Subtract from the latter figure Hawker's £8m of currency gains and £5m of extra profits from the new pensions accounting regime, and the underlying growth looks weaker still.

The key point is that just at the same time as earnings momentum is slowing, Hawker is spending more. Capital expenditure, at about £87m, has shifted on to a new plateau of about 1.7 times depreciation, versus about 1.1 times in the mid-1980s; and the £157m of spending on acquisitions last year is just a start. Hawker's strategy looks right, but in the short term one can see the shares reflecting the extra strains on resources and the closer possibility of a rights issue.

Molins/Leucadia

Outsiders must wonder what it is about Molins that has attracted three bids and one attempted management buyout in the past 4½ years. Institutional shareholders, particularly M & G with 18.8 per cent, have stayed loyal throughout and have no real reason for regret. Over the last five years, Molins' shares have performed almost exactly in line with the FT All-Share Index. It seems doubtful whether shareholders will be any more welcoming to Leucadia than they were to Sir Ron Brierley, particularly as they rejected an earlier bid 20 per cent higher than the current one.

Molins has reshaped both its management team and its tobacco machinery business over the years, and probably deserves a break from the bid pressure. On last week's reported profits the current offer reprsents a multiple of under eight. Even stripping out the SSAP 24 pension benefit, the rating rises only to 10. If one generously allowed Leucadia its doubts about the Brazilian profits, the multiple would still be a mere 12.5. And that would include nothing for the potential benefits of patent income from the group's flexible manufacturing systems.

Admittedly, such income is subject to the slow and unpredictable grind of the US legal system. But it may well represent an underlying reason for the renewed bidding interest. Unless it is prepared to pay a good deal more, Leucadia could easily find itself stranded with its 34 per cent stake.

Bowater

For the past three years, the Bowater share price has gone sideways relative to the market as investors have dithered between the claimed focus of the group and the perceived illogicality of its structure. Judging by yesterday's full year figures, they would do better to concentrate on the margins *being wrung out of* the business. In the second half, group margins for continuing operations went from 8.2 per cent to 9.1 per cent; and in the particularly vexed area of packaging, the figure doubled to 8.4 per cent over the year.

This year's profits increase should be at least 10 per cent at the pre-tax level. After dilution from the Norton Opax acquisition, earnings per share growth could be a mere 5 per cent, putting the shares at 479p on a multiple of under eight. The market is pardonably nervous of gearing at 130 per cent due to Norton Opax, but this is promised to come down to 100 per cent this year through disposals and cash flow. Like its model BTR, Bowater is not afraid of gearing; and even if it does not yet deserve BTR's rating, it is starting to give a credible imitation of its methods.

Tillinghast

Tillinghast, the consulting actuaries appointed by London United Investments (Lex, March 27), points out correctly that its review last year was confined to LUI subsidiary Walbrook, El Paso Insurance, Desert Insurance and LUI Insurance Syndicate Inc. Tillinghast does not accept that its conclusions as to reserving policies applied to the LUI group as a whole.

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INSIDE

Edelman gives up the Storehouse chase

Asher Edelman (left), the American arbitrageur who for months stalked Storehouse, Sir Terence Conran's retail group, has cut his stake in the group to below the 5 per cent notifiable level. In June last year Mr Edelman built up his stake to 8.1 per cent and talked of a bid valuing Storehouse at £765m ($1.2bn). But his tactics backfired and he is thought to have made a sizable loss. Page 27

Nickels and dimes

The prospect of PT Inco, the Indonesian nickel producer, being floated on domestic stock exchanges has met with such a warm response that the target price for the flotation has been raised. Inco, the Canadian group which owns 20 per cent of PT Inco, now stands to collect about $250m. Page 23

Behind closed doors

The stone lions stand guard over the traditional English interior of Aquascutum's flagship store in Regent Street. Nothing seems to change. But behind closed doors a string of fundamental alterations is in progress, including the share structure which has protected the company from hostile takeover. Page 28

Beating the North-South divide

In the plains of northern Greece, rows of neatly pruned pear trees stand beside humming irrigation pumps in fields of sugar beet. This is Greek agriculture at its most competitive. Further south, however, the picture is somewhat different. Kerin Hope reports. Page 34

Grand plan for Pillsbury

The Pillsbury doughboy is being put on a strict diet. Grand Metropolitan plans to cut operating costs at its US subsidiary by $150m over the next two years. Pillsbury has welcomed the moves. "Before GrandMet, it was a bit like a football game in which we had the ball, the team on the field, but no game plan. Now we have a game plan," said one satisfied Pillsbury executive. Page 24

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				Ingenico	134.9	+	16.0
Rises				Sat	1985	+	84.1
Karstadt	684	+	10	**Falls**			
Linde	979	+	21	Bancaire	573	−	21.2
Varta	495	+	14	Codetel	152.5	−	8.2
Falls				Poliet	531	−	22.9
Brown Boveri	601	−	24	**TOKYO (Yen)**			
Hochtief	1421	−	29	**Rises**			
Springer Vlg Rg	800	−	25	Jap Mtl & Chem	1550	+	200
NEW YORK ($)				Origin Elec	1400	+	190
Rises				Toyo Shutter	3900	+	600
Amer General	38½	+	6½	Wakamoto			
Apple Bancorp	39¼	+	7¼	Pharm	2420	+	320
Genetic Dev	4½	+	½	**Falls**			
Falls				Godo Shusei	1930	−	270
Avon Products	33⅞	−	½	Nippon Piston	1150	−	130
Cineplex Odeon	6⅞	−	⅛				
UAL	160¾	−	1⅞				
PARIS (FFr)							
Rises							
Geophysique	1125	+	55.6				

New York prices as at 12.00pm.

LONDON (Pence)				Pearson	665	+	12
Rises				Richmond Oil	155	+	14
Amersham	308	+	10	Std Chartered	545	+	17
Atlas Conv Eq	585	+	60	Thorn EMI	680	+	12
Bowater	479	+	24	Tinsley Robor	35	+	11
Cable & Wire	539	+	12	Warburg (SG)	471	+	12
Clayform	200	+	16	**Falls**			
Grand Met	605	+	12	Bullough	108	−	11
Kingfisher	289	+	8	Dowty	199	−	7
Lancaster	174	+	31	Hawker Sidd	629	−	11
Midsummer Les	182	+	27				
NatWest	353	+	11				

Commerzbank holds profits steady

By Katharine Campbell in Frankfurt

COMMERZBANK, the third largest West German financial institution, yesterday reported unchanged group total operating profits for 1989, although partial operating profits, which exclude proceeds from the bank's own trading book, rose 11.4 per cent to DM1.17bn ($685m).

Mr Walter Seipp, chief executive, said the dividend payment would be held at DM9, characterising last year's rising interest rate environment as "an extreme strain."

Deutsche Bank, West Germany's biggest bank, has already announced a DM2 dividend increase, and Dresdner is also expected to increase its payout. Mr Seipp carefully hinted at a rise in 1990.

The bank's total operating profits are estimated at DM1.8bn, although it gives no absolute figures. This year's trading profits therefore declined considerably, with difficult conditions in the bond market apparently not compensated for in other areas, in spite of the high levels of activity in the equity market, especially towards the end of the year.

Net interest income rose by just 2.4 per cent at group level to DM3.04bn, though the second half of the year was better than the first six months.

All the same, average margins fell again to 2.02 per cent from 2.15 per cent, and were under further pressure at the beginning of this year.

Analysts say the balance sheet restructuring undertaken last year should mean that continuing high interest rates should take less of a toll in coming months.

Meanwhile, group fee income rose 20.9 per cent to DM1.20bn. The bank said bond write-downs at parent level of DM300m had been more than compensated for by extraordinary sales of bonds and shares. They added that this would again be the case this year, even if interest rates maintained their current high levels.

Once the largest private bank on what is now East German territory, Commerzbank anticipates spending about DM50m establishing its first 10 East German branches as soon as the necessary changes are in place. It would have 30 branches within 15 months.

Brushing aside rumours that Deutsche Bank is poised to take over the entire East German commercial banking network, Mr Seipp said Mr Horst Kaminsky, the current head of the state bank in Berlin, had given assurances that there would be equal bidding opportunities.

● Deutsche Bank has raised parent bank net income for 1989 by 23 per cent to DM1.01bn from DM825m in 1988, AP-DJ reports.

The bank's supervisory board approved an increase in the 1989 dividend to DM14.00 a share from DM12.00.

Results in detail are due out today, including partial operating profit for the group and parent bank and group net income.

The tricky waters of US liability insurance

Patrick Cockburn explores the crisis at LUI

This week's crisis at London United Investments (LUI) and the order by the Department of Trade and Industry to Walbrook, LUI's main insurance underwriter, to stop writing new business had an immediate impact abroad.

In Florida, for instance, where Walbrook had written a lot of medical malpractice insurance Mr George McCleary, executive vice-president of Emergency Medical Services of Fort Lauderdale, which supplies doctors to local hospitals, described the situation as "scary". He emphasised that Walbrook was still paying claims. "We're watching the wires and we're very concerned," Mr McCleary said.

In London meanwhile the insurance industry is waiting for a report by Tillinghast, the consulting actuaries. This will reveal how far six other LUI subsidiaries are short of reserves to meet claims expected from US liability business. A preliminary report by Tillinghast led to a suspension of payments by the six, the DTI order to Walbrook, and the suspension of LUI's shares.

LUI and its subsidiaries are not the first in London to suffer from insuring US liability business. Ever since 1985 the results of big UK composites such as Royal Insurance and Commercial have been hit by losses in the US. Underwriting syndicates at Lloyd's of London, the insurance market, have also made losses, and syndicate members have tried to limit them in court.

Members of Lloyd's syndicate 317/661 managed by RHM Outhwaite face losses of £304m ($486m). Another syndicate, Pulbrook 90, estimates its ultimate losses from asbestos claims to be $250m.

LUI has no connection with Lloyd's but insurance brokers fear that the LUI crisis, coming on top of the Outhwaite affair and the Lloyd's scandals of the early 1980s, may make US insurers chary of bringing their business to the London market. "For the Americans it might be one scare too many," said one broker.

The problems have a common origin: the sweeping changes in liability insurance in the US over the past 25 years. American insurers were hit as well as British but the latter were particularly vulnerable because they specialised in providing excess insurance – only to be triggered if losses reached catastrophic dimensions.

Before 1966 risks – and premiums – for this type of excess insurance were low. The sector produced predictable profits for insurers. But from the late 1960s, according Mr Richard Stewart, former insurance commissioner of New York, now a consultant at Stewart Economics in New York: "an increasingly litigious society greatly expanded the the need for insurance to cover liability suits and judgments." British and American insurers have since complained that their losses were caused by unexpected and unmerited changes in US law and the way it was interpreted by the courts. In reality, they were also beneficiaries of this change. Companies and individuals, frightened by the new legal risks, rushed to insure. Liability insurance faced sharply rising demand – in contrast to mature markets for auto, homeowners and many types of commercial cover.

The danger for the insurers was that in these novel conditions they had little evidence about the level of claims to be expected.

Demand for liability insurance and the size of court awards both grew fast. By 1988, for instance, operators of day care centres for children in 24 US states could not operate without liability insurance. Some 75 per cent of doctors in one survey said they ordered more tests than necessary because they were afraid of a medical malpractice suit.

The fear is understandable given that out of 398 malpractice awards by courts in 1988 100 were for sums over $1m. A study of product liability cases in five states showed that initial verdicts in 30 per cent of cases were for awards of over $1m.

But the worst damage to the insurers came as a result of asbestos and environmental pollution. Asbestos claims in particular continually forced insurers to increase their reserves throughout the 1980s.

In January this year some 60,000 asbestos claims were still pending and new claims were coming in at up to 1,500 a month.

Losses in US casualty business led most UK insurers to pull out of the business – or to take it only on very restrictive terms.

This, in turn, increased the importance of H.S. Weavers, the LUI subsidiary that was the largest underwriting agent in the London market still prepared to take US liability business. Since 1985, Weavers had limited the terms under which it took on these risks; but the six subsidiary companies which LUI says are under-reserved still have claims coming in from policies written in the early 1980s and before.

By the end of the decade, as other companies and Lloyd's syndicates withdrew from US casualty business, Weavers continued to insure risks that nobody else would take.

Even now, it is unclear how well or badly Weavers was judging the risks. According to Mr Peter Wilson, chairman of LUI, any estimate of the reserves needed to meet future claims remains "extremely subjective." Claims have risen in size in the last year, and there are more of them. It might simply be, he says, that US courts are now processing such claims faster. If this is true, then it could turn out that – as claims come in over the next few decades – the subsidiaries' reserves are more than adequate to meet them.

So far, however, all those in the UK who have dealt with US liability insurance – the Outhwaite syndicate, LUI, the composites – have found that each passing year has brought only bad news. It remains to be seen if Weavers, now managed by Mr John Head of Anglo American Insurance, can take advantage of the continuing demand for this type of insurance without becoming its victim.

Additional reporting by Alan Friedman in New York.

De Benedetti wins latest round in battle for Mondadori

By John Wyles in Rome

THE LEGAL pendulum yesterday swung for the first time resolutely away from Mr Silvio Berlusconi in his battle with Mr Carlo De Benedetti for control of Mondadori, Italy's largest publishing group.

The restoration to Mr De Benedetti of a sequestered shareholding in Amef, the holding company with a bare majority of Mondadori's ordinary stock, is likely to increase Mr Berlusconi's growing interest in ending a conflict which has become a bitter clash of personalities and a lawyer's playground.

Yesterday's judgment in Milan increases the pressure on the king of Italian private television. Last week legislation was passed by one house of the Italian parliament which would prevent Mr Berlusconi from retaining both his three television networks and his interest in Mondadori with its present range of newspaper and publishing activities.

Cir, Mr De Benedetti's holding company, claimed yesterday that the court's decision meant Mr Berlusconi would have to surrender the presidency of Mondadori.

The Milan judge suspended the controlling shareholders' agreement by which Mr Berlusconi and his allies were able to take control of Amef after the sequestration of Cir's 16 per cent holding, which had been committed to the shareholders' pact.

At an Amef ordinary meeting called for April 23, Cir will request that the company's present board be replaced by one based on proportional representation of shareholders.

Cir, which owns an overall 37 per cent of Amef, apparently believes that it could out-vote Mr Berlusconi's 37 per cent with support from the custodian of the 27.5 per cent stake owned by the Formenton family.

The Formentons triggered the current battle by switching their allegiance from Mr De Benedetti to Mr Berlusconi in December, despite having signed an agreement to sell their holding in Amef to Cir next year.

The validity of this agreement has not been knocked down in court and was the basis for the legal sequestration of the Formenton shares at Cir's request.

Meanwhile, the majority of Mondadori's ordinary and privileged shares controlled by Cir should ensure a decision in favour of a capital increase at an extraordinary shareholders' meeting tomorrow. This would take away Amef's majority of ordinary stock and, therefore, the Berlusconi's camp's control of the publisher.

Hawker Siddeley unveils sweeping reorganisation

By Charles Leadbeater, Industrial Editor, in London

HAWKER SIDDELEY, the diversified engineering group, yesterday unveiled a sweeping reorganisation designed to pave the way for a revitalisation of the group, after it announced a 10 per cent increase in pre-tax profits to £202m ($323m) for 1989.

But the reorganisation falls short of the restructuring plan many expected. Dr Alan Watkins, chief executive, said the reorganisation of businesses into seven divisions, was intended to create more coherent business units, increasingly able to control costs and develop long-run strategies.

The company has appointed Mr Duncan Lewis, British Telecom's former director of strategy for network services, to the newly created post of director of corporate strategy and it is close to recruiting a director for human resource development.

These appointments, combined with clearer management responsibility for the main divisions – electric motors, electric power, instruments and controls, batteries, aerospace and rail – are intended to lead to a thorough-going restructuring in 1990.

Plans for rationalisation which are aimed at cutting costs in some areas by up to 40 per cent will be drawn up within the next four months. The rationalisation is unlikely to lead to plant closures but will concentrate on improving manufacturing efficiency and reducing wasteful duplication between the group's disparate factories, Dr Watkins said. Some of the businesses in the residual general engineering division would be sold in the coming year, he said.

Although profits were below City expectations – the group's shares closed at 629p down 11p – Dr Watkins said his ambition to double the group's turnover in the next five years through acquisitions, particularly in continental Europe and organic growth, was undimmed.

The group spent £157m on acquisitions last year, funded by withdrawal from peripheral activities and an increase in borrowings to 10 per cent of shareholders funds. But Dr Watkins did not rule out the possibility that the group might eventually withdraw from some sectors.

The group's manufacturing businesses generated little real growth last year. The increase in pre-tax profits from £183.7m in 1988 was mainly due to exchange rate movements, changes in accounting rules for pensions and property transactions.

A £13.2m rise in trading profits in its manufacturing businesses was almost offset by the £6m loss in power station contracting and a deterioration in the performance of its cable business.

Lex, Page 20

Thorn shelves defence disposal

By Michael Skapinker in London

THORN EMI has abandoned an attempt to dispose of its defence electronics activities, although the group hopes to sell Systron Donner Corporation, its US aerospace sub-systems and components subsidiary, to BEI Electronics of California.

Thorn says it will now attempt to develop the bulk of its defence activities itself. But it does not rule out one or two further small disposals.

Mr Juggy Pandit, Thorn's corporate development director, said the British music, lighting and technology group, had talked to several defence companies in the UK, the US and continental Europe about buying its electronics business.

With the downturn in the defence industry, however, it was not able to find a buyer willing to pay the price it was demanding – believed to be in the region of £300m ($480m).

Mr Pandit said Ferranti International's sale of parts of its business had distracted attention from Thorn's attempts to sell its defence arm. Among the companies Thorn talked to was Thomson-CSF, the state-controlled French electronics group, which was at one point considered to be a possible buyer of Ferranti.

Thorn says it hopes to complete negotiations to sell Systron Donner to BEI by the end of April. Systron Donner's management is also expected to have a stake in the BEI acquisition.

Systron Donner, which has 1,000 employees, had sales of $90m in the year to March last year.

Mr Pandit said the company had assets of between $40m and $45m. He added that Thorn would expect to agree a sale price somewhat in excess of the asset value.

Mr Pandit explained said that the US company accounted for about 20 per cent of Thorn's defence electronics business. He said that had Thorn been able to get a good price for the remainder of its defence activities, it would have sold them.

"Given the state of the market, we've taken the view that we will now run the business and develop it ourselves. The order book is up on last year and it's not a problem business," he said.

INTERNATIONAL COMPANIES AND FINANCE

Aker and Banesto reach deal on cement companies

By Peter Bruce in Madrid

AKER, the big Norwegian cement and offshore products group, has finally reached agreement with Banco Espanol de Credito (Banesto), on breaking up the Spanish commercial bank's extensive holdings in Valenciana de Cementos Portland and Sanson, Spain's third and seventh largest cement producers.

The two have been the main players in a battle for control of Valenciana since last November when Aker, with the support of the Serratosa family, which manages and partly owns Valenciana, raised its stake to 24.9 per cent of the group.

This blocked ambitious plans by Banesto to merge all its cement interests into a new industrial group.

Banesto said this week it had sold its 31.9 per cent holding in Valenciana, through the stock market, for more than Pta59bn ($539m). The Serratosa family confirmed later that it had bought 10 per cent of the stock and that the rest had been bought by Valenciana and affiliates.

Analysts said Aker could not have bought more shares without triggering a formal takeover bid.

In return, Valenciana has sold its direct holding of 1.5 per cent in Banesto, for some Pta9bn, back to the bank. Banesto will have to place these shares on the market as its treasury stock is already above the legal 5 per cent.

The unravelling of the fiercely intertwined holdings that Valenciana and Sanson have in various affiliates has been designed to avoid having to make formal takeover offers. Analysts close to Aker and the Serratosa family said yesterday that the division of the other companies involved could take place next week.

At the moment, Sanson and Valenciana each own 50 per cent of Portland Iberia, Spain's tenth largest producer. This is likely to go to Banesto, along with Cementos Morata de Jalon in Aragon and Cementos de las Islas in the Canaries, leaving it with a cement production capacity of some 3.2m tonnes a year.

The Serratosas and Aker would take Valenciana, Cementos del Mar in Catalonia, Cementos del Atlantico in Seville and Portland de Mallorca, with a production capacity of 5.6m tonnes a year.

BASF hits record but warns on year ahead

By Katharine Campbell

BASF, one of the three big West German chemicals concerns, achieved record pre-tax profits of DM4.38bn ($2.6bn) for 1989, according to a letter to shareholders. The company has not said whether it will increase its dividend from DM10.

The climate will be more difficult this year, and although order levels have been maintained, the directors expect problems in achieving 1989 turnover and profitability figures.

BASF group sales, valued at DM47.62bn, grew 8.5 per cent over the year, while pre-tax profits rose 17.7 per cent. The growth slowdown felt throughout the chemicals industry was visible in the second half, although the company says that both turnover and profits in the fourth quarter were up on the previous period.

Its energy activities mean that BASF, unlike other chemicals companies, has benefited from higher oil prices. The oil refining subsidiary Wintershall, for instance, made a profit, after losses in 1988. Good capacity use contributed to the strong group profits.

Strong sectors included dyestuffs and finishing stuffs, whereas increased competition held back profitability levels in *chemicals and synthetics*, despite higher demand.

Consumer products did well, with pharmaceuticals particularly strong largely on account of overseas sales.

As previously, the strongest contribution came from outside Germany. For example, BASF did well in Brazil, despite economic difficulties. In the US, the company reported that restructuring and environmental measures had put pressure on profits.

OCBC in rights issue

OCBC, one of Singapore's big four banking groups, is planning a rights issue after lifting net profits 21.5 per cent last year to S$280.4m (US$107m), Our Financial Staff writes.

It will offer 55.2m shares and that number of warrants, each on a six-for-100 basis.

Gardini secures majority of seats on Enimont board

By John Wyles in Rome

MR RAUL GARDINI, Montedison chairman, yesterday secured his majority on the board of Enimont, putting Montedison in the driving seat of the chemicals joint venture, and leaving Eni, the state energy company, to ponder its next move.

At a much postponed Enimont shareholders' meeting, Montedison's 40 per cent combined with 11 per cent purchased on the open market by Mr Gardini's declared allies, Prudential Bache, Mr Jean Marc Vernes and Mr Gianni Varasi, elected the two businessmen to the Enimont board.

Eni, the state energy company and partner in Enimont, *cast its 40 per cent against* both the principle of enlarging the board and the nominees.

Mr Varasi is a business partner of Mr Gardini in other investments, while Mr Vernes is president of Beghin-Say, the French sugar company controlled by Mr Gardini's Ferruzzi group.

Both say they are anxious to support the internationalisation of Enimont and a move into higher value-added chemical products, a strategy already outlined by Mr Gardini.

Although the Ferruzzi boss now has seven of the 12 Enimont board seats, he is still unable to implement such a strategy because the company's statutes require the support of at least eight directors for major strategic decisions on investments, joint ventures and appointments.

He does, however, appear to *have control over day to day* management of such matters as plant closures and workforce cuts – issues which he claims Eni has been evading under political pressure.

The state company, with apparent government approval, rejects Mr Gardini's strategic plan with its requirement that the state cede full control of Enimont to Montedison. Hence, the situation is still largely deadlocked, with both sides not even being able to agree at a long meeting on Tuesday evening on the appointment of a new president to Enimont. Eni's proposal that Mr Lorenzo Necci, who resigned a month ago, should return to his post was rejected by Montedison.

But the two warring shareholders may have no alternative but to try to live together. This view seemed to be implicit yesterday in Mr Varasi's *statement after* his election that he hoped that both Mr Gardini and Mr Gabriele Cagliari, the Eni president, would agree to join the Enimont board.

Insurance group seeks links with Paribas

By William Dawkins in Paris

ASSURANCES GENERALES de France (AGF), the second largest French state-owned insurance group, is seeking business co-operation with Paribas, following its acquisition of a 9 per cent stake in the investment bank.

Paribas cautiously welcomed the increase in AGF's stake, but officials close to the bank are sceptical about the prospects for any wider links with the insurer, indicating that the discussions with AGF will be highly sensitive.

Although Paribas is happy to invest in insurance companies, its directors have never wanted to get into insurance business itself.

AGF said it would now seek French finance and banking authorities' consent to lift its investment in Paribas to just over 10 per cent. The move was confirmed on the eve of a Paribas board meeting to agree changes to the bank's top management.

Mr André Lévy-Lang, now chief executive of Compagnie Bancaire, Paribas' biggest, most successful subsidiary, would take day-to-day operating control of the investment bank, leaving Mr Michel François-Poncet, its chairman, in charge of broad strategy. Mr Lévy-Lang is understood to share Mr François-Poncet's unwillingness to diversify into insurance.

Paribas would like to see AGF – which previously held 7.3 per cent – as an ally against Navigation Mixte, the food to financial services conglomerate.

Navigation Mixte took an unfriendly 12 per cent stake in Paribas last year as a defence against a widely criticised abortive approach from the bank, which now holds 40 per cent of the conglomerate.

AGF, which helped Paribas attack Navigation Mixte by exchanging its 5 per cent stake in the conglomerate for shares in the bank, said it wanted to be a "stabilising element" in Paribas' ownership.

Mr Michel Albert, AGF's chairman, will now encourage Paribas to take shares in his group, said officials.

Operating profit rises by 13% at PKbanken

By John Burton in Stockholm

SWEDEN'S state-controlled PKbanken, the country's largest commercial bank group, yesterday reported a 13 per cent rise in group operating profit to SKr3.28bn ($535m).

The bank said it could not forecast 1990 earnings because of its SKr5.6bn purchase of the regional bank Nordbanken, which will be completed this year with PKbanken assuming the Nordbanken name.

Interest income in 1989 climbed by 17 per cent to SKr6.65bn due to a 34 per cent rise in lending volume, particularly in foreign currency loans.

Operating costs rose 17 per cent, reflecting a 34 per cent jump in credit losses to SKr692m. These included SKr70m on loans to the West German retailer Co op, SKr30m to Finland's bankrupt Wärtsilä Marine and SKr45m on loans to underdeveloped countries.

The return on equity declined by three percentage points to 17.3 per cent, due to costs of acquiring the state-owned Swedish Investment Bank last June and to lower profitability from operations.

Ferrovial's bid to acquire Cubiertas faces counter

By Peter Bruce

THE HOSTILE attempt by Ferrovial, the privately owned Spanish construction group, to take over Cubiertas y MZOV, the second biggest company in the sector, took an unexpected twist yesterday when one of Cubiertas' main shareholders presented a second counter-offer for the company.

Officials at the Comision Nacional del Mercado de Valores (CNMV), the stock market commission, said they understood the new bid had been made by Eur, a company owned by Juan and Jose Entrecanales, which already has a 12.8 per cent stake in Cubiertas. Entrecanales is also one of Spain's largest construction groups.

Three days after Ferrovial presented its takeover offer to the CNMV on March 20, a portfolio company owned by Cubiertas, employees presented a first counterbid.

The commission has not released details of any of the bids but the initial counter-offer is thought to have been designed to force Ferrovial to increase its initial bid to 100 per cent of the company.

Ferrovial currently owns 25.7 per cent of Cubiertas, and is understood to have been trying to raise this to just over 50 per cent.

But the commission, which was meeting yesterday to discuss the initial two bids, is thought to have serious doubts about the legality of the first counteroffer as the employee portfolio company making it bought most of its current 6 per cent stake in Cubiertas with money borrowed from Cubiertas itself.

The new bid by the Entrecanales family may therefore be a safety measure should the first counter offer be disallowed.

Commission officials said yesterday that it was now highly unlikely that a decision on which bids to allow could be made this week.

If any of the counterbids are given the green light, they and Ferrovial would have to bid for the whole of Cubiertas.

Although Ferrovial has not publicly said what it is offering for control of Cubiertas, Banco Hispano Americano has put up Pta15bn ($148.4m) to guarantee the offer.

Trading in Cubiertas shares was suspended last week.

Benetton slips despite sales rise

By John Wyles in Rome

BENETTON, Italy's leading international clothing group, yesterday reported its first drop in profits since 1981 after accepting reduced margins in pursuit of higher market share.

Despite a 12 per cent increase in 1989 consolidated sales to L1,657.5bn ($1.3bn), group profits fell 11 per cent to L115.4bn.

The board has decided to recommend an unchanged dividend of L600m.

Mr Gilbert Benetton, president, said the main objective had been to enlarge market share through an aggressive pricing policy "and close attention to the product."

The "medium term result" had been decreasing margins despite an 8 per cent increase in Italian production and 15 per cent abroad. Sales from Spanish and US subsidiaries each recorded a 29 per cent increase.

The group's worldwide network of 5,900 retail outlets in 82 countries sold 68m items last year, 8.3 per cent up on 1988.

Mr Benetton said the two developments of particular importance for the future had been the quotation of Benetton shares on the New York and Toronto stock exchanges and a production and marketing agreement with the Japanese group Seibu/Saison.

UCB surges by 58%

By Tim Dickson in Brussels

UCB, the Belgian chemicals concern, boosted pre-tax profits by 58 per cent last year to BFr2.26bn ($64m) on turnover 24 per cent higher at BFr43.1bn.

Although helped by a first time contribution from four new units in the film sector and higher exceptional profits from disposals, the result reflects the payback on UCB's heavy investment strategy of the last few years as well as more recent trends.

In the pharmaceutical sector the company said its anti-allergic drug Zyrtec had been a success and chalked up sales of BFr1bn last year, although it had only been marketed "in certain countries."

The chemical sector achieved "an excellent level of activity" in the main products and speciality chemicals. However, competition in the film sector remained "very strong."

UCB profits after exceptional items amounted to BFr2.3bn, against BFr1.4bn the previous year.

Finmeccanica lifts earnings

FINMECCANICA, the Italian state-owned engineering and electronics group, yesterday reported a 25 per cent increase in consolidated net profits last year to L93.8bn ($75m), writes John Wyles.

Group sales rose 22 per cent to L8,120bn and orders by 21 per cent to L10,144bn. Net capital was 26 per cent higher than *at the end of 1988 at* L2,785bn and net debt rose 14 per cent to L2,945bn.

The 1989 results reflect the purchase of Bailey Controls, a US railway signal company.

INTERNATIONAL COMPANIES AND FINANCE

Making a mint out of nickel

Kenneth Gooding on the flotation of an Indonesian company

Inco, the Canadian group which is the world's largest nickel producer, stands to collect about US$250m before expenses for the 20 per cent of PT International Nickel Indonesia it has put up for sale and a value of $1bn is placed on the complete Indonesian business.

This is more than it originally expected: potential investors were told in London yesterday there had been an increase in target price for the flotation, which takes place on the Jakarta Stock Exchange next month.

The target range for the issue is now Rp9,000 to Rp10,500 (US$5 to $5.83); compared with the Rp8,000 to Rp9,500 quoted to Far Eastern institutional investors last week.

Mr Michael Ansell of Morgan Stanley, lead international selling agent for the offering, said the price had been lifted because demand for the PT Inco shares was so great. Hong Kong institutions alone could absorb the tranche allocated to non-Indonesian investors.

Two years ago Inco netted $100m by selling 20 per cent of PT Inco to Sumitomo Metal Mining of Japan. Its shareholding will be reduced to 58.2 per cent after the offering. Mr Ian McDougall, Inco's vice president responsible for finance, said the Sumitomo deal was done "at a different time, in different circumstances."

In 1987 PT Inco just managed to break even because of low nickel prices and had a $400m debt load. Since then nickel prices recovered and looked likely to stay healthy. At the end of last year PT Inco's debt load had been reduced to $95m.

A Soroako worker moves a three-tonne rubber bag of upgraded nickel matte, bound for Japan

Sumitomo also took on certain obligations — such as agreeing to buy 20 per cent of PT Inco's output and to contribute to the Indonesian company's current $81m expansion programme.

Morgan's Mr Ansell suggested interest in the offering was high because PT Inco was a unique "nickel play" in that it had only one product: nickel matte (an intermediate material containing about 77 to 80 per cent nickel). Last year the company accounted for about 7 per cent of western world output of the metal.

The promised high yield was also an appealing factor, said Mr Ansell. PT Inco, which has not previously paid a dividend, intends to distribute in semi-annual dividends all its available cash up to the amount of retained earnings after providing for working capital and debt service requirements and capital spending programmes.

Even if the nickel price averaged only $3 a lb this year PT Inco would still have $100m or 45 cents a share to distribute. The average yield of companies quoted in Indonesia is 1 to 3 per cent, Mr Ansell said.

That calculation assumes completion of negotiations for a syndicate lead by Long-Term Credit Bank of Japan to provide PT Inco with a $300m credit facility over ten years at "attractive" rates. Part of this will be used to pay PT Inco's existing debts — all owed to Inco. The terms of its contract with the Indonesian Government stop PT Inco from diversifying. The expansion programme, designed to increase its nominal annual production capacity from about 65mlbs of nickel in matte to 105lbs, should be completed by the end of this year.

Apart from having only one product, PT Inco has only two customers, Sumitomo and Inco, and all its output goes to Japanese smelters which are heavily protected by a tariff on imported nickel metal.

Mr James Guiry, president of PT Inco, said the company expected to produce about 80m lbs of nickel in matte this year, compared with 64mlbs in 1989, and 87mlbs in each of the years from 1991 to 1993 inclusive.

The company has reserves for at least 25 years and is one of the lowest-cost producers in the world — it can break even when the nickel price is a rock-bottom $1.50 a lb.

Last year its average realised price was $4.76 a lb (up from $4.73) which generated net sales of $305m ($298m) to give net earnings of $182m ($174m). It generated a record cash surplus before financing activities of $216m ($139m).

Under the terms of the contract with the Indonesian government, which lasts until 2008 but could be extended, Inco was obliged to offer 2 per cent of PT Inco to the Government every year since 1980. The Government never took up the option but last year suggested that the condition would be met if 20 per cent of PT Inco was floated in Indonesia.

Local regulations would permit up to 49.5 per cent of the quoted shares to held by non-Indonesian residents but Morgan Stanley aims initially to limit foreign holdings to about 30 per cent.

PT (Persero) Danareksa, the state-owned investment trust in Indonesia, is lead managing underwriter for the issue.

Bank Hapoalim returns to black with Shl 90m

By Hugh Carnegy in Tel Aviv

A DIP in bad debt provisions and an improved operating performance helped Israel's trade union-controlled Bank Hapoalim post an inflation-adjusted net profit of Shl 90m ($44.9m) in 1989 after a loss the previous year of Shl 64m.

Hapoalim, the country's biggest financial group in terms of assets, has been the hardest hit by heavy bad-debt allowances stemming from a poor economy and the problems of the Koor Industries conglomerate.

Last year the bank set aside 2.8 per cent of its loan portfolio, or Shl 802m, although this was 25 per cent down on 1988.

It showed an 8.3 per cent increase in net earnings before provisions and taxes to Shl 1.16bn.

Hapoalim said a lack of growth in core financing operations meant a greater emphasis was being put on developing services such as insurance, securities, foreign exchange and portfolio management.

Poseidon improves helped by series of acquisitions

By Chris Sherwell in Sydney

A SERIES of acquisitions and a restructuring have helped Poseidon, the Australian gold group controlled by Mr Robert Champion de Crespigny, to double its net profit on an equity-accounted basis.

For the six months to December it showed an after-tax operating profit of A$25.7m (US$19.2m), or A$14m before equity accounting, up from A$12.3m in the previous corresponding period. Revenues were A$117.8m, up from A$71m.

The group controls gold operations which produced 319,000 oz in the six months, making it one of Australia's larger gold groups. Its equity share was 132,400 oz.

Over the past 18 months Poseidon has taken over Australian Development (now named Poseidon Gold), Anglo American Pacific, and Freeport McMoran Australia.

It has also acquired a 33 per cent interest in – and management of – Gold Mines of Kalgoorlie (GMK), formerly part of Mr Alan Bond's gold operations, and raised A$272m through a rights issue and share placement.

The group also has interests in diamonds, base metals and an industrials minerals business. Its largest shareholder is the Normandy Resources group, controlled by Mr Champion de Crespigny, which yesterday announced a 46 per cent increase in equity-accounted profits to A$12.5m.

The figures for Poseidon showed sharply increased interest expenses of A$4.9m, compared with A$242,000 in the previous period. The profit also included a gain of A$8.8m "on conversion of various debt instruments" with the acquisition of the GMK stake.

Earlier this week other listed entities within the group – Poseidon Gold, Pan Australian Mining and GMK – also reported interim results. Poseidon Gold showed an equity-accounted after-tax profit of A$15.25m, almost five times the A$3.1m figure of the previous corresponding period.

Bond Brewing wins defeat of bankers' appeal

THE DEBT-BURDENED Bond group of companies won some small comfort yesterday with a court defeat for bankers to its brewing business and a temporary reprieve for its broadcasting affiliate, writes Chris Sherwell.

The legal advance came in the High Court in Canberra, Australia's highest court. It told a creditor syndicate led by National Australia Bank (NAB) it could not appeal against the removal of a receiver from Bond Brewing Holdings, part of Bond Corporation.

The reprieve came with a decision by a second banking syndicate – also led by NAB – to give Bond Media another 12 weeks to find fresh injections of equity and repay a A$367m (US$274m) loan facility due by yesterday.

The first syndicate, which is owed A$880m by Bond Brewing, has a court case due soon for the repayment of amounts owing. Bond Media also faces a liquidation move by Mr Kerry Packer, Australia's richest citizen, if it does not meet a weekend deadline to repay A$200m.

INTERNATIONAL COMPANIES AND FINANCE

Eastern Air breaks deal with its creditors

By Roderick Oram in New York

EASTERN Air Lines, the beleaguered US carrier controlled by Mr Frank Lorenzo, said its worsening financial condition had forced it to break its latest agreement with its unsecured creditors.

Frustrated by Eastern's inability to honour yet another repayment package, some creditors might try to force the liquidation or sale of Eastern, analysts suggested. Until now a majority of them had agreed to let Mr Lorenzo try to reorganise the company but they are growing increasingly sceptical he can revive it.

Eastern has operated under protection of the US bankruptcy courts since its pilots honoured a strike by the airline's machinists last March.

The airline said it was failing to generate sufficient traffic to meet its goals because of a "negative and disruptive public perception."

As a result of weak traffic, the airline was likely to run up an operating loss of $330m this year and make no profit next year, compared with its January forecast of a loss of $186m this year and improving profitability thereafter. Given deterioration, it cannot go ahead with its tentative agreement to pay unsecured creditors about 40 cents on the dollar.

The airline left unchanged its forecast for a $375m capital gain from disposals this year, which would leave it with a net profit of around $45m.

It announced several steps to improve its performance. It will cut its flight schedule by 12 per cent in the second half of the year from the levels it forecast in January. It will also cut its fleet from 160 aircraft to 148 through further disposals.

Court orders Miniscribe to be auctioned

By Louise Kehoe in San Francisco

MINISCRIBE, the struggling US personal computer disk drive manufacturer will be auctioned next week in a court ordered sale to be conducted by a bankruptcy judge in Denver, Colorado.

The sale will end an unusually brief period of operation under Chapter 11. The company filed for protection from its creditors on January 1, declaring assets of $86m and liabilities of $258m.

Among those expected to participate in the bidding is Standard Chartered Bank, which, as Miniscribe's principle lender, is owed $110m.

The bank has the right to bid all or part of the debt to acquire the assets of the company.

It appears unlikely that any bids will be made before the court auction, said Mr Roger Barzum, Miniscribe's general counsel.

"It is unlikely that the sale price will be anywhere near $110m," said one interested party.

Dissident voice grows at Lockheed

By Roderick Oram in New York

SHAREHOLDERS of Lockheed meet today to elect a board for the California defence aerospace company, amid signs that Mr Harold Simmons, the Dallas investor, is picking up institutional investor support for his slate of dissident directors.

But the result of Mr Simmons' expensive and hard fought proxy battle to unseat the incumbent board will not be known for several weeks until auditors have scrutinised the ballots, Lockheed said yesterday.

The present board, chaired by Mr Dan Tellep, appeared to remain confident of maintaining control. On Monday it rebuffed an attempt by some institutional shareholders to mediate a compromise with Mr Simmons, who has a 19 per cent stake in the company. The shareholders asked that Mr Simmons' nominees be given three of the board's 14 seats.

The company rejected the proposal without holding formal talks with the shareholders but said it would offer at least one seat to representatives of institutional shareholders. It said it did not consider Mr Simmons a suitable candidate for the task.

During the fight, Mr Simmons has successfully steered some of the discussion away from his lack of concrete plans to revive Lockheed. Instead, he has stirred up some institutional shareholder concern over their rights.

Some holders are upset, for example, that the company has placed 19 per cent of its stock in an employee stock ownership plan.

Often, employees are more inclined to support existing management, rather than dissidents.

The California Employees Retirement System, the pension fund for the state's employees, has thrown its support behind Mr Simmons. It holds less than 1 per cent of Lockheed's stock but it is a leader in shareholder rights' fights in the US.

It has been canvassing for support among public sector employee pension funds in other large states.

Troubled Cineplex sells assets

By Bernard Simon in Toronto

CINEPLEX Odeon Corporation has sold several peripheral businesses and restructured its debt in a bid to recover from the turmoil which has engulfed North America's second biggest cinema chain over the past year.

Britain's Rank Organisation is to buy Cineplex's remaining 51 per cent interest in Film House, a Toronto film laboratory, for US$46m and its residual interest in Universal Studios' Florida theme park for $15m. The transactions are expected to be completed by March 30.

Cineplex expects to raise another £7m ($11.4m) from the sale of its British theatres, which include a 10-screen complex in Slough and several other sites under development, to Cannon Cinemas. Cineplex has agreed not to operate theatres in the UK for five years.

The Toronto-based company suffered a US$75.8m loss ($1.65 a share) last year, against earnings of $40.4m (83 cents) a year earlier. Revenues slipped to $644.2m from $648.1m. The loss would have almost doubled were it not for gains of $67.4m on the sale of 50 per cent of a Florida theme park and the live theatre division.

The fourth quarter loss was $48.4m (91 cents), compared with income of $10.6m (21 cents) in 1988.

Cineplex was mired for most of last year in a feud between Mr Garth Drabinsky, its former chairman, and MCA, the US entertainment group, its biggest shareholder.

Cineplex's new management has agreed in principle with bank lenders to alter its debt covenants. The amendments include a commitment to raise $200m from asset sales this year, which will be used to reduce debt, the long-term portion of which totalled $578m at the end of last year.

If the asset sale goal is not reached, Cineplex's two biggest shareholders will provide up to $50m by subscribing to a rights offering.

Travel fall restricts Thomson

By Bernard Simon in Toronto

A SHARP fall in travel earnings offset the gain from Thomson Corporation's publishing and information interests last year to leave net income of the Toronto-based group little changed.

Thomson, the product of a merger last year between International Thomson Organisation and Thomson Newspapers, posted net earnings before extraordinary items of US$420m, or 78 cents a share, down from US$436m, or 80 cents, in 1988.

The 1988 figures include US$56m (10 cents) in income from the company's former oil and gas operations. Revenues rose to US$5.1bn from US$4.7bn. Tax provisions were halved to US$55m.

There was an extraordinary gain last year of US$475m from the sale of the energy business, bringing total earnings to US$895m. The company has raised its quarterly dividend to 11.3 cents from 10.3 cents.

Last year's growth came mainly from the professional information and publishing division, whose operating income jumped 23 per cent to US$325m. But the travel business, which includes Thomson Travel, Britannia Airways and Lunn Poly, just broke even, after earning US$60m in 1988. Operating income from newspapers rose slightly to US$317m.

The company said that although competitive pressures in the British travel market might ease this year as tour operators tried to widen their margins, its 1990 summer business might be down by as much as 20 per cent. Thomson sold 4.4m holidays last year, giving it a 38 per cent share of the UK charter tour market, up from 33 per cent in 1988.

In publishing, the US-based book and library reference group posted sales, operating profits and margins above expectations. But the automotive group had a disappointing year, despite higher sales. British regional newspapers' profits rose slightly, reflecting start-up expenses of new titles.

The newspaper division, whose focus is small-town papers in the US and Canada, suffered lower margins as a result of spending on new launches, marketing and news coverage. The company has taken steps to revitalise its newspaper business.

Pillsbury to cut costs by $150m

By Philip Rawstorne in Minneapolis

GRAND Metropolitan, the UK food and drinks group, will cut the operating costs of its Pillsbury US food subsidiary by $150m over the next two years, nearly double the amount expected on acquisition 14 months ago.

Mr Paul Walsh, chief executive officer of Pillsbury, said $30m would come from reductions in the workforce and another $18m from the closure of five plants. Much of the rest will be achieved by improved production, distribution and management systems.

GrandMet's disposals of former Pillsbury restaurants, seafood and grain merchandising during the restructuring have also recouped about $1bn of the $5.8bn purchase price.

The savings have helped GrandMet to pump $140m into a two-year modernisation programme, the payback from which in product quality and customer service should amount to $35m a year on completion, Mr Walsh estimated.

Consumer advertising expenditure has been increased overall by 40 per cent. Spending on the marketing of some key brands has been doubled and is already producing volume sales increases of 7 per cent, Mr Walsh said.

Pillsbury, which contributes around 23 per cent of GrandMet's revenue, expects sales of $2.8bn this year, with operating profits up by 25 per cent.

Other separately-managed US operations - Foodservice, Haagen-Dazs ice cream and Burger King - should at least meet 15 per cent profit increase targets.

The two "positive surprises" emerging from the Pillsbury takeover, said Mr Ian Martin, chief executive of GrandMet's food division, were Haagen-Dazs ice cream and the Foodservice catering products manufacturer.

With total sales of $390m this year, Haagen-Dazs has 59 per cent of the US super premium ice cream market.

Accelerated new product development and increased marketing support are seen as key factors in the expansion of Green Giant vegetables and Pillsbury bakery products, Pillsbury's main businesses.

Mitsubishi Monsanto Kasei to divide

By Karen Zagor in New York

MONSANTO, the big US chemicals company, and Mitsubishi Kasei, Japan's largest integrated chemical company, are restructuring their 38-year-old joint venture, Mitsubishi Monsanto Kasei, a leading chemical company in Japan.

Both companies said the decision to divide the businesses of MMK came after "friendly negotiations."

According to Monsanto, the US company has changed radically since the joint venture was established, and there are products made by MMK which no longer interest Monsanto on a global basis. No jobs are expected to be lost in the restructuring.

Mitsubishi Kasei will have total ownership of the restructured MMK operations, and the company will drop the Monsanto from its name. The restructured company will make gallium-arsenide wafers, Astroturf, some film and polystyrene plastic, with annual sales of $280m.

Monsanto's Japanese subsidiary, Monsanto Japan, will be left with Saflex plastic interlayer, chemical additive to rubber products, Santoprene thermoplastic elastomer and specialty chemicals, with annual sales of $74m (Y11.6bn).

In addition, a new joint venture will be set up for the products in which both companies have strategic interest. It will be owned jointly by subsidiaries of the two big chemical companies instead of being directly held by Monsanto and Mitsubishi Kasei. Annual sales for the new joint venture are expected to be Y30bn ($190.7m).

According to analysts, Monsanto's decision to operate largely on its own in Japan is a positive step. "The joint venture was established to help them find their feet, but now they can stand on their own," said Mr Viren Mehta of Mehta Isaly in New York.

In 1989, Monsanto had income of $679m or $10.03 a share on sales of $8.68bn. The company expects its first quarter profits for 1990 to fall below the $222m or $3.24 a share earned in 1989.

INTERNATIONAL CAPITAL MARKETS

Cavendish launches mortage security

By Norma Cohen

CAVENDISH Funding, part of the Cavendish Capital Group, has completed a £20m revolving credit facility which incorporates some features of a mortgage-backed security. The loan is intended to provide six-month open bridge financing for individuals purchasing a home who have not yet disposed of an existing residence in which there is a large equity element.

The fund will lend up to 75 per cent of the combined value of the two properties. Funds are to be used to pay off the existing mortgage and provide a downpayment on the new property. Also, six-month interest is capitalized into principal so that lenders bear no servicing risks.

The facility is backed by a comprehensive insurance package including a policy underwritten by Norwich Union which insures each property for up to 75 per cent of its value, thus protecting lenders from a sudden slump in property prices.

The facility carries a margin of 60 basis points over Libor and was structured and arranged by N.M. Rothschild.

● Midland Newspapers, a subsidiary of Ingersoll Publications, had completed a £65m seven-year term loan arranged by Standard Chartered Bank. Funds will be used to finance purchase of new presses and other developments, as well as refinance an earlier loan.

● Ensign Trust has signed a $85m term loan facility, said Manufacturers Hanover Trust as arranger. The facility was increased from the $75m initially planned due to oversubscription.

Taiwan bond market open to foreigners

By Peter Wickenden in Taipei

TAIWAN'S bond market is to be opened to branches of foreign companies, resident foreigners and overseas Chinese, the Finance Ministry said.

The ministry has decided in principle to allow these three groups to invest in corporate and government bonds, financial bonds and beneficiary certificates. No timetable has been set.

Direct investment in the stock market by foreigners is to remain banned on the grounds that it is too small and too speculative.

The Taiwanese bond market is small and largely inactive. Issues are bought-up by financial institutions which use them as the base of their portfolios and rarely trade them.

The decision is widely seen as a further step to liberalise and broaden Taiwan's financial markets.

Foreign firms generally welcomed the move, saying it would help activate Taiwan's financial market and bring the island closer to becoming a regional financial centre in Asia.

Atlas-Copco plans to issue 4m B shares

ATLAS-Copco, the Swedish rock-drilling and engineering group, plans to seek authorisation from shareholders for an international issue of 4m B shares, Reuter reports.

The group said the issue would involve the waiver of the preferential subscription rights of existing shareholders and would be primarily targeted for international markets.

Atlas Copco's capital currently totals SKr782m, represented by 23.5m A shares with one vote each and 7.8m B shares with one-tenth of a vote. The issue will result in a dilution of 1.6 per cent.

The group said the proceeds will be used to fund recent and planned acquisitions, strengthen capital structure and promote expansion.

Enskilda Securities will lead manage and co-ordinate the issue.

Illiquid bonds broker set up

By Andrew Freeman

AN agency broker specialising in illiquid and under-researched bonds has been set up in London to serve the Euromarket. Luthy, Ballie, Dowsett, Pethick & Company, named after its four founding executive directors, is capitalised at $5m following subscriptions by eight institutional investors to an issue of convertible preference shares.

It will concentrate on portfolio planning for large institutional and corporate clients.

Treasuries slip in spite of modest rally by dollar

By Janet Bush in New York and Deborah Hargreaves in London

IN spite of early dollar strength, US Treasuries moved modestly lower yesterday, partly on mild disappointment about upward revisions in fourth quarter GNP and partly as traders pushed yields higher to attract demand for the four-year auction.

GOVERNMENT BONDS

At midsession, the benchmark long bond was quoted ⅜ point lower for a yield of 8.59 per cent. Short-dated maturities stood as much as ⅛ point lower.

Fourth quarter GNP was revised up to 1.1 per cent from 0.9 per cent previously reported. There was little impact from news of a 3.1 per cent rise in new single-family home sales in February from a revised 6.8 per cent fall in January. A rebound had been expected.

The auction yesterday of $8bn in four-year notes was expected to see good demand because of relatively high current yields in the short end of the yield curve. Although non-competitive bids at Tuesday's two-year auction were not as high as in January's two-year sale, demand was still healthy. The lack of any positive response to early dollar strength was disappointing. Traders are beginning to focus once again on concerns about rising rates overseas and supply coming soon at the long end of the market with another Refcorp bond probable as part of the thrift bail-out.

■ IT WAS a day of treading water for UK gilts as the market failed to be impressed by a stronger currency and closed virtually unchanged on the day. The pound improved with the Bank of England's trade-weighted index closing at 87.6 from a previous level of 87.3.

A slip of around half a point in UK gilt prices in the middle of the session yesterday encouraged some buying from retail investors abroad. Foreigners have been noticeably absent from the market recently. However, brokers are not predicting a rush of renewed interest. The poor outlook for inflation and the uncertain UK political climate continue to dominate sentiment.

■ THE German cash market continued to follow the futures contract on Liffe yesterday where prices for the June contract dropped to 83.21 from the previous close of 83.31 in a thin day's trading.

The price of the 7¾ per cent 2000 bond was fixed 45 pfennigs lower at 94.75, but trading remained slow amid a feeling that yields had peaked at just over 9 per cent.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	91-21	+01/32	13.49	13.06	12.56
		10.500	5/99	88-31	+01/32	12.54	12.88	11.58
		9.000	10/08	81-03	+01/32	11.48	11.58	10.61
US TREASURY *		8.500	02/00	99-23	-05/32	8.54	8.52	8.51
		8.500	02/20	100-03	-07/32	8.49	8.46	8.53
JAPAN	No 119	4.600	6/99	85.2954	-0.045	7.34	7.29	6.92
	No 2	5.700	3/07	88.1343	-0.336	7.26	7.14	6.52
GERMANY		7.125	12/99	90.5000	-0.150	8.59	8.68	8.63
FRANCE	BTAN	9.000	02/95	94.9533	+0.179	10.35	10.46	10.57
	OAT	8.500	03/00	92.3100	+0.280	9.73	9.81	10.02
CANADA *		9.250	12/99	89.8500	-0.700	10.97	10.82	10.51
NETHERLANDS		7.750	01/00	93.3700	+0.050	8.77	8.95	8.91
AUSTRALIA		12.000	7/99	92.7513	+0.150	13.37	13.42	13.34

London closing. *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

CBA plans A$3bn issue programme

THE Commonwealth Bank of Australia plans a domestic bond programme of up to A$3bn in bonds to be issued in the form of inscribed stock over the next two to three years, Reuter reports.

The bank intends to issue A$1bn in the first series of the programme, which is being lead-managed by Commonwealth Bank Capital Markets.

A bank official said: "This will be the first time the Commonwealth Bank has tapped the domestic market with a medium-term bond instrument."

The first tranche of bonds – about A$500m – is expected before Easter.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on March 28

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Austria 9½ 93	140	101¼	101½	-0¼	+0¼	9.12
B.F.C.E. 8½ 94	175	96½	97	-0¼	+0¼	9.28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available–previous day's price
† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

Magellan mutual fund manager to step down

By Janet Bush in New York

MR PETER Lynch, the legendary manager of Fidelity Investments' $12bn Magellan mutual fund, yesterday announced his resignation from the Boston firm to pursue family interests.

Under his stewardship since 1977, it has spectacularly outperformed other mutual funds. Magellan offered a total return of 28.5 per cent a year during the 1980s compared with a return of 17.5 per cent offered by investing in the Standard & Poor's 500 shares index.

Mr Lynch explained yesterday that he was 46, the age at which his father suffered a heart attack, and that this had been on his mind. "I have been blessed in my 21-year career with Fidelity and I very much want to give something back to the community."

It appeared yesterday that Mr Lynch was retiring and would not be looking for another job.

Mr Lynch is arguably the best-known fund manager in the US and his reputation has been enormously positive for Fidelity, creating concern that investors who were attracted to Fidelity by his name could move their accounts. The Magellan fund has a million investors and accounts for about a 10th of all the accounts managed by Fidelity.

Hailed variously by the successive US financial press as The Maestro of Magellan and King of the Mutual Funds, Mr Lynch offers investors simple, old fashioned advice such as "Invest in companies, not the stock market" and "Don't over-estimate the skill and wisdom of professionals."

Mr Lynch will manage Magellan until the end of May when he will be replaced by Mr Morris Smith, 32, currently manager of Fidelity's over-the-counter portfolios. Mr Lynch will remain on the Fidelity Group of Funds' Board of Trustees to which he was elected earlier this month.

● Stephen Bradley has resigned as a managing director in Merrill Lynch Capital Markets' global debt financing department. Mr Bradley, who was instrumental in developing the company's first department solely devoted to fixed-income products, said personal reasons motivated his departure.

Mr Bradley said he was currently talking with various institutions and "exploring other alternatives."

Regulators eye Eurosterling bond buy-ins

Andrew Freeman on interest in the UK sector of the Euromarket

The subject of buy-ins is attracting increasing interest in the Eurosterling bond market. So far, most attention has been paid to arguments made by market-makers concerning the damage, real and potential, to the underlying liquidity of London's corporate bond market. Now, however, there are signs that interest is widening.

The threat to marketmakers from buy-ins is simple. Dealers have become reluctant to make two-way prices in some issues because they do not want to risk selling bonds that may become subject to a buy-in. This is having an adverse effect on liquidity.

Most of the large dealers say they have been caught short in some of the recent buy-ins and have then been unable to buy bonds to meet their obligations. Stock prices can jump sharply on news of a buy-in so the sums involved can be significant.

Unfortunately for market-makers, they are not the only constituency with an interest in buy-ins. Issuers which can make millions of pounds profit by buying back debt which has traded to a deep discount are arguably doing no more than exercising their right to judge their own debt as cheap.

There is no intrinsic reason why they should not be free to use the market in this way. The only danger for an issuer is that a badly handled buy-in might damage its individual reputation within the market and lead to charges of opportunism from investors.

Most Eurosterling syndicate desks already advise clients that it is in their best interest to be as frank as possible over the timing and conduct of a buy-in.

Such advice, backed up by legal opinion, is in line with a body of rules enforced by London's International Stock Exchange as well as with Bank of England guidelines on issuer conduct in the short-term debt market.

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The ISE's so-called "yellow book" sets out the rules for the listing in London of securities. Much of the book is concerned with pre-listing requirements, but Section Five deals with Continuing Obligations, the rules on how a company must behave after it has obtained a listing.

Several paragraphs of Section Five have direct bearing on the conduct of buy-ins. Specifically, the general guidelines note that: "The guiding principle is that information which is expected to be price-sensitive should be released immediately it is the subject of a decision."

Paragraph 17 refers directly to the purchase by a company of its own securities, but notes that purchases of debt securities only have to be announced when five per cent of the outstanding amount of a security has been acquired.

It was this rule which was the subject of a letter earlier this week to the ISE from Barclays de Zoete Wedd, one of the leading sterling marketmakers. BZW suggested the rule allowed issuers to cause confusion in the market by not requiring them to clarify their intentions towards the remainder of an issue subject to a buy-in.

The Bank of England has also issued an implicit warning on buy-ins in a recent paper on commercial paper and the medium-term note market.

It said any repurchases should not be conducted in a manner likely to create a misleading impression and stated clearly that the spirit and letter of Section 47 (2) of the UK Financial Services Act, which deals with the handling of price sensitive information, must be observed in any buy-back.

Given that all these regulations are in addition to insider dealing considerations, there would seem to be a clear consensus as to the outlines of the proper conduct of buy-ins. Unfortunately, in practice there is some variation in the standard of conduct both by some issuers and by the agents they appoint.

Some investors can be affected if they are left holding the illiquid rump of an issue which has been partly bought in. This problem would be partially solved by improved conduct from buy-in agents.

In its letter to the ISE, BZW suggested that issuers deciding on a buy-in should make the following points in an advance announcement:

● the price the issuer wishes to pay

● the period during which the offer remains open

● what proportion of the issue the offer applies to.

If the reasons for the sudden interest in buy-ins from marketmakers are clear, it is less obvious that other market participants are currently quite as concerned. Most of the immediate problems caused by buy-ins are intra-professional and have little direct impact on investors or other issuers.

Some investors can be affected if they are left holding the illiquid rump of an issue which has been partly bought in. This problem would be partially solved by improved conduct from buy-in agents.

It would also obviously not apply if an issuer decided to make an exchange offer, replacing discounted debt with a new, liquid issue – as British Telecom did recently.

Few investors would object in principle to replacing an asset which had underperformed with a new instrument.

However, exchange issues are only feasible for issuers wanting to replace debt. Many analysts think the number of issuers in this position is relatively small.

Although the current tax treatment of the capital gain unlocked by a buy-in is very generous, issuers often have to offset the costs of unwinding a currency or interest rate swap which may be attached to the issue.

This can make the whole process uneconomical.

Denmark fills gap in state debt financing

THE Danish central bank yesterday held its first auction of three and six month treasury bonds, a move designed to give flexibility to financing state debt, Reuters reports.

The zero coupon bonds are sold at a discount and redeemed at par and are listed on the Copenhagen bourse after the auctions.

The unit size of DKr1m is considerably larger than the DKr1,000 crown unit in which other state bonds are sold.

At the auction, 5,419 units of three-month bonds were sold at the striking price of DKr971,513 and 4,235 units of six month bonds at DKr944,604, the bank.

Bids were received for 7,745 units of three-month and 6,319 units of six-month paper. All bids at or above the striking price were met in full.

The bank will hold treasury bond auctions four times a year, and will accept bids only from financial institutions and stock brokerages.

The main purpose of the bonds is to supplement state borrowing operations with liquid short-term paper, enabling the central bank to minimise interest payments.

The bonds will fill a gap in the thin short end of the money market, and, due to their liquidity, allow volume trading.

Paribas in warrants offer

By Deborah Hargreaves

THE launch by Paribas Capital Markets of warrants based on a basket of stocks in the telecommunications sector is the latest in a growing wave of interest in over-the-counter equity basket products.

Paribas says it saw strong retail investor interest for its two previous basket issues of "green" and "red" warrants. The green warrants run for two years and can be exercised into a basket of West German stocks likely to benefit from environmental concern in Europe, similarly, the red warrants were based on a basket of German stocks likely to benefit from reunification.

Paribas' latest issue of "ET" warrants gives the holder of 20 warrants the right to exercise them into telecommunications shares in France, Sweden, the UK, Italy and Germany.

The warrants are priced in Ecu and are being sold mainly to the retail market.

Several brokerage houses are understood to be looking at the launch of these sort of sector baskets which they believe will increase in popularity along with the growth of the over-the-counter derivatives market in London.

Stocks with a strong "story" attached to them are proving popular with individual investors in the wake of turmoil in Eastern Europe and the run-up to the single market in 1992.

Two A$ deals prompt postponement of several issues

By Norma Cohen

ACTIVITY in primary Eurobond markets was again becalmed by interest rate uncertainty. Only two new deals emerged yesterday, both in Australian dollars and targeted at specific pockets of retail demand.

Significantly, the emergence of the two deals, both of which carry relatively high coupons, was said to have forced the postponement of several other issues – including one for a big French bank – in Australian dollars.

These deals were intended to pay somewhat more modest interest rates and thus could not compete with coupons on yesterday's issues.

Still, dealers noted that the fact that underwriters are postponing issues rather than launch into a disinterested market, is a sign of the new sensitivity towards profitability that is creeping into the Eurobond market.

Finance Company of South Australia, the overseas borrowing vehicle of Beneficial Finance Corp – itself a subsidiary of State Bank of South Australia – issued a two-year A$50m Eurobond bearing a coupon of 15% per cent and priced at 101.90. The bonds yield 15.23 per cent if sold at a discount equal to full fees.

Lead manager Crédit Commercial de France said the bonds are targeted at retail investors in European currencies who own maturing A$ bonds. If these investors opt to reinvest proceeds in their own currency, they will have to recognise a currency loss. For instance, the A$ has fallen about 15 per cent against the Belgian franc over the past year.

Similarly, Council of Europe yesterday launched a A$50m Eurobond via Bankers Trust International bearing a 17% per cent coupon and priced at 101.75.

The catch is that the issuer, which just last week issued a 15 per cent one-year Eurobond, has the option of redeeming the securities in the US currency at an exchange rate of 73 cents to the A$.

● THE French Treasury is selling FFr510m of 20-year bonds to Mexico to back the principal repayment of bonds Mexico is issuing to commercial banks as part of its recent $48.5bn debt rescheduling agreement, Reuter reports.

The Finance Ministry said interest on the bonds will be capitalised at an annual rate of 9.6 per cent with the result that upon maturity Mexico will receive FFr8.3bn with which to pay off part of the new bonds it is issuing, they said.

The US and Japan have issued similar private-placement bonds to help Mexico's debt restructuring.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
AUSTRALIAN DOLLARS						
Finance Co.of S.Australia♦	50	15¾	101.90	1992	1¼/¾	CCF
Council of Europe♦	50	17¼	101¾	1991	1/½	BTI

♦Final terms.

SES may open OTC market to foreign brokers

THE STOCK Exchange of Singapore (SES) is considering the participation of foreign brokers on the over-the-counter (OTC) market and will encourage listing of more local and foreign companies on the main board, Reuters reports.

The OTC market, also known as CLOB (Central Limit Order Book) International, has the potential for trading a wider diversity of regional stocks, the SES said.

● Sanwa Bank (Switzerland), a subsidiary of Japan's Sanwa Bank, has acquired the private banking department of Robert Fleming (Switzerland).

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed Mar 28 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Tue Mar 27 Index No.	Mon Mar 26 Index No.	Fri Mar 23 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (202)	858.60	....	13.50	5.21	9.03	9.07	859.03	868.53	868.72	951.13
2	Building Materials (27)	1052.07	-0.2	14.95	5.44	8.32	3.29	1053.77	1066.24	1060.60	1197.78
3	Contracting, Construction (37)	1406.87	-0.2	17.45	5.71	7.49	13.63	1409.23	1416.93	1416.20	1760.71
4	Electricals (10)	2471.73	-0.1	11.59	5.41	10.64	1.41	2474.46	2494.16	2482.85	2775.81
5	Electronics (29)	1814.36	-0.4	9.99	4.08	12.99	16.80	1820.76	1852.39	1836.31	2122.83
6	Engineering-Aerospace (8)	436.71	-0.3	15.33	5.29	8.03	7.69	437.94	439.84	441.08	0.00
7	Engineering-General (44)	463.80	-0.1	12.20	5.32	9.88	5.16	464.27	465.28	464.68	0.00
8	Metals and Metal Forming (6)	487.74	....	24.13	6.39	4.67	0.53	487.74	496.99	497.20	539.87
9	Motors (16)	349.43	+0.1	14.42	6.36	8.21	5.74	348.96	355.84	356.07	310.66
10	Other Industrial Materials (25)	1578.12	+0.3	11.34	5.03	10.27	27.90	1572.97	1588.69	1607.14	1606.08
21	CONSUMER GROUP (176)	1228.70	+0.4	9.60	3.99	13.00	6.08	1223.39	1237.60	1231.60	1168.53
22	Brewers and Distillers (22)	1454.45	+0.6	9.97	3.79	12.38	6.57	1445.45	1460.50	1451.74	1273.89
25	Food Manufacturing (20)	1062.42	+0.1	10.47	4.42	11.86	8.09	1060.99	1066.95	1065.18	1023.37
26	Food Retailing (16)	2252.99	-0.4	8.99	3.38	14.44	7.38	2261.57	2268.55	2252.89	1987.94
27	Health and Household (13)	2532.15	+0.5	7.14	2.74	16.73	14.72	2518.45	2559.70	2542.13	2163.87
29	Leisure (31)	1431.24	+1.3	9.90	4.26	12.47	6.96	1412.49	1444.78	1445.83	1615.08
31	Packaging & Paper (13)	564.79	+1.9	12.82	5.69	9.69	2.66	554.07	566.53	562.13	592.92
32	Publishing & Printing (16)	3233.59	+0.3	9.96	5.42	12.84	23.01	3225.36	3235.91	3224.42	3684.32
34	Stores (33)	750.30	+0.3	11.69	5.01	11.09	1.82	748.18	758.38	752.94	763.80
35	Textiles (12)	496.29	....	13.13	7.06	9.59	0.59	496.31	496.90	500.75	516.76
40	OTHER GROUPS (104)	1157.13	+0.4	10.79	4.91	11.09	7.00	1152.91	1169.92	1165.24	1064.26
41	Agencies (17)	1561.91	-0.1	5.77	2.46	21.36	12.19	1564.03	1574.84	1573.36	1251.34
42	Chemicals (23)	1215.46	-0.1	12.05	5.42	9.66	22.72	1216.67	1238.72	1234.06	1216.17
43	Conglomerates (13)	1602.46	+0.4	10.15	6.12	11.60	5.78	1595.69	1625.26	1610.14	1507.70
44	Transport (13)	2239.29	+0.1	10.91	4.43	11.67	6.69	2236.77	2267.52	2242.87	2348.01
46	Telephone Networks (2)	1189.73	+1.0	10.67	4.31	12.19	0.00	1178.49	1194.86	1184.98	1106.45
47	Water (10)	1947.31	+0.3	17.90	6.95	6.19	0.00	1942.32	1964.96	1986.44	0.00
48	Miscellaneous (26)	1838.76	+0.3	9.90	4.50	11.40	18.00	1832.42	1857.78	1865.90	1489.38
49	INDUSTRIAL GROUP (482)	1127.50	+0.3	10.94	4.58	11.17	7.53	1124.20	1138.24	1134.45	1105.22
51	Oil & Gas (18)	2339.78	+0.3	10.51	5.15	12.54	35.47	2333.29	2359.91	2344.36	1997.88
59	500 SHARE INDEX (500)	1228.26	+0.3	10.88	4.66	11.35	9.71	1224.70	1239.80	1235.09	1180.90
61	FINANCIAL GROUP (113)	802.08	+0.7	–	5.59	–	12.54	796.89	805.50	798.57	749.63
62	Banks (9)	889.68	+1.2	18.91	6.01	6.92	24.14	878.81	889.27	876.66	733.42
65	Insurance (Life) (7)	1279.81	....	–	5.65	–	11.81	1280.00	1302.99	1297.53	1118.69
66	Insurance (Composite) (7)	657.89	-0.1	–	6.04	–	7.72	658.32	666.57	656.16	595.23
67	Insurance (Brokers) (6)	1021.97	....	7.27	6.29	18.28	16.73	1021.47	1018.30	1028.18	966.04
68	Merchant Banks (8)	458.06	+0.9	–	4.15	–	4.27	454.16	455.23	459.34	333.89
69	Property (49)	1089.34	+0.8	8.33	4.00	15.19	1.88	1080.64	1089.83	1087.45	1331.29
70	Other Financial (27)	318.06	-0.3	13.94	6.98	9.45	2.89	319.05	320.69	320.39	373.15
71	Investment Trusts (68)	1158.85	-0.2	–	3.27	–	8.65	1161.21	1174.79	1166.61	1088.34
91	Overseas Traders (5)	1412.21	+0.9	9.15	6.48	13.17	31.27	1399.98	1409.70	1407.33	1408.78
99	ALL-SHARE INDEX (686)	1124.57	+0.3	–	4.77	–	10.30	1120.83	1134.34	1129.11	1075.03

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Mar 27	Mar 26	Mar 23	Mar 22	Mar 21	Year ago
FT-SE 100 SHARE INDEX♦	2275.0	+8.8	2280.4	2270.8	2266.2	2298.2	2283.9	2258.9	2250.3	2071.7

FIXED INTEREST

	PRICE INDICES	Wed Mar 28	Day's change %	Tue Mar 27	xd adj. today	xd adj. 1990 to date
	British Government					
1	Up to 5 years	112.61	-0.05	112.67	–	3.41
2	5-15 years	117.16	-0.05	117.22	–	3.00
3	Over 15 years	119.27	-0.05	119.33	–	4.16
4	Irredeemables	138.08	+0.23	137.76	–	1.51
5	All stocks	117.48	-0.05	117.54	–	3.34
	Index-Linked					
6	Up to 5 years	140.77	-0.02	140.79	–	0.94
7	Over 5 years	132.53	+0.29	132.15	–	1.05
8	All stocks	133.04	+0.26	132.69	–	1.04
9	Debentures & Loans	95.42	+0.53	94.92	–	2.72
10	Preference	75.19	+0.23	75.02	–	1.92

	AVERAGE GROSS REDEMPTION YIELDS		Wed Mar 28	Tue Mar 27	Year ago (approx.)
	British Government				
1	Low	5 years	11.79	11.72	9.48
2	Coupons	15 years	11.42	11.41	9.09
3		25 years	11.29	11.30	8.92
4	Medium	5 years	13.00	12.97	10.51
5	Coupons	15 years	11.86	11.85	9.53
6		25 years	11.41	11.42	9.09
7	High	5 years	13.11	13.08	10.63
8	Coupons	15 years	12.15	12.14	9.75
9		25 years	11.67	11.66	9.27
10	Irredeemables†		11.30	11.32	8.87
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.63	4.61	3.52
12	Inflation rate 5%	Over 5 yrs.	4.13	4.15	3.51
13	Inflation rate 10%	Up to 5 yrs.	3.63	3.61	2.60
14	Inflation rate 10%	Over 5 yrs.	3.95	3.97	3.33
15	Debs &	5 years	15.56	15.64	12.23
16	Loans	15 years	14.42	14.36	11.44
17		25 years	13.66	13.72	10.82
18	Preference†		12.26	12.28	10.07

♦Opening index 2271.6; 9 am 2273.8; 10 am 2273.0; 11 am 2280.3; Noon 2278.4; 1 pm 2277.4; 2 pm 2277.8; 3 pm 2274.7; 4 pm 2274.0; 4.10 pm 2274.6; (a) 11.03am (b) 9.20am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	18	55	24
Corporations, Dominion and Foreign Bonds	2	5	19
Industrials	354	352	685
Financial and Properties	127	147	434
Oils	24	18	49
Plantations	3	0	7
Mines	60	25	73
Others	80	57	115
Totals	668	659	1,406

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1989/90 High	1989/90 Low	Stock	Closing Price	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
§125	F.P.	–	128	118	ABI Leisure 10p	118		4.7	3.3	5.3	7.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989/90 High	1989/90 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989/90 High	1989/90 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

TRADITIONAL OPTIONS

● First Dealings March 19
● Last Dealings March 30
● Last Declarations June 21
● For settlement July 2

For rate indications see end of London Share Service

Calls in Aviva Pet., Control Sec., Courtwell, Colorol, Midland Bank, Next and Tusker Res.

LONDON TRADED OPTIONS

THE expiry of March FT-SE 100 index contracts on Friday boosted turnover on the futures market. Meanwhile, options dealing levels remained depressed on subdued stockmarket trading.

On the London International Financial Futures Exchange, the main incentive for investors appeared to be switching out of the expiring March contract and into June.

Early strong buying of the futures market pushed the March contract to a 9 point premium over the cash index, dragging it higher. But a lack of direction from Wall Street and some selling at the highs pushed the futures market lower. It closed at a premium of just over 6 points.

March closed at 2,281 up 12 points on the day and traded a total of 5,452 lots, while June traded 2,161. Futures dealers said put buying in the options market had also caused prices to weaken.

In the FT-SE options, turnover was also boosted by investors who were long of March puts and switched into April and May.

The larger trades of the day included the purchase of 1,200 March 2,300 calls at 8p. Another investor bought 800 March 2,250 puts, which was said to be an opening bargain. The expiry of March FT-SE options on Friday boosted turnover, although dealers said there would be more expiry business today.

The FT-SE index traded a total of 6,800 contracts, of which 2,877 were calls and 3,923 were puts. The March 2,300 puts were the most active, trading 1,923.

Stock options dealing was lifted by one investor who bought 500 lots in BT, GEC, Allied Lyons, and Trusthouse Forte and 300 in Ladbroke.

GEC was the most active option, as 3,524 changed hands. This was divided between 1,963 calls and 1,561 puts. The August 220 call series was the busiest, trading 1,250. The larger trades included the purchase of 500 August 220 calls.

Option	Calls			Puts		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

March 28 Total Contracts 27,507 Calls 16,030 Puts 11,477 FT-SE Index Calls 2,877 Puts 3,923 Euro FT-SE Calls 370 Puts 0

*Underlying security price. † Long dated expiry dates

UK COMPANY NEWS

Leucadia bids for Molins after Brierley stake buy

By Andrew Hill

MOLINS was yesterday forced to fight its third hostile bid since 1987 after IEP Securities, Sir Ron Brierley's investment vehicle, agreed to sell its 33 per cent stake in the cigarette machinery and precision engineering group to Leucadia National Corporation.

Leucadia, a quoted New York company with interests ranging from insurance and banking to bathroom vanity units, is offering 252p cash for each Molins share. That values the group at about £75.9m, and compares with yesterday's opening price of 246p. The shares closed at 251p.

Rejecting the bid as "totally inadequate and unacceptable", Mr Neil Clarke, Molins chairman, also attacked IEP, which has mounted two unsuccessful bids for Molins. He described the company as "ugly flotsam that does a lot of damage to sensible long-term investment in industrial companies".

Leucadia, which already owns 1.8 per cent of the target company, claimed Molins' 1989 profits of £13.9m before tax were deceptively high because they included the benefit of new methods of accounting for pension costs. It also attacked Molins' Brazilian operation, profits from which are difficult to recover.

The US company said yesterday it had made no decisions about the future of Molins, but would hope to have discussions.

However, Mr Clarke said: "At this stage I can see no point in meeting at all: it might have been more proper if they are long-term investors, to come and talk to us before they bought the stake."

Leucadia's adviser, Hambros Bank, admitted that there was little synergy between the two companies.

However, one attraction for bidders may be the unrealised income stream from patents on the automation of machine tools – the so-called flexible manufacturing system first patented by Molins in 1965, which is the subject of US legal action.

Hawker Siddeley reorganises

By Charles Leadbeater, Industrial Editor

MR DUNCAN LEWIS is going to have his work cut out. From next week his job will be to develop corporate strategy for Hawker Siddeley, the diversified engineering group, which makes everything from large electric motors to sheep shearing equipment.

Dr Alan Watkins, Hawker Siddeley's chief executive, is bringing Mr Lewis in from British Telecom where he was director of strategy for network services, to enact a long-planned restructuring.

In spite of a 10 per cent increase in pre-tax profits to £202m, many of the businesses showed little growth last year. Turnover in UK manufacturing rose to £863m (£796), but profits were flat at £79m. A 46 per cent increase in US sales produced an 8 per cent profits rise.

Some divisions, such as rail and electric power, will benefit from investments by their main customers, British Rail and the electricity distribution companies. But a boom for those sectors could well come to an end within five years.

Hawker Siddeley's second problem has been its lack of coherence and vision. Generally a manager running one of its hundreds of factories with an annual turnover of from £30m to £40m would have ambitions limited to acquisitions of £5m to £10m. Corporate headquarters reacted to and vetted proposals but it was difficult to initiate strategic development from the centre."

The reorganisation is meant to curtail costs and raise ambitions. Strategic thinking at the centre about developing international markets is meant to combine with more dynamic management of the divisions.

The businesses are being regrouped into more coherent units. Three will be product based: electric motors, instruments and controls and batteries – and another three will be market-based: rail, aerospace and electric power.

Plans for rationalisation are expected to be finalised within four months.

Dr Watkins claimed it was unlikely that many factories would be closed. Costs should be cut through more shared purchasing, marketing, research and development and a rationalisation of product plans.

The success of the reorganisation, however, is far from assured.

In the first place, some things will not change that much. The largest division with a turnover of £500m will be general engineering, a ragbag of businesses from diesels, to lighting and steel wheels. "It would be remarkable if some of those businesses were not sold, but the division is not up for sale," Dr Watkins said.

The engineering division is not as big as it seems, though. A third of its turnover comes from investments in related companies and a third from the Canadian operations which are run as a separate entity.

Secondly, the divisional heads will not have much incentive to make deep cuts in their businesses or consider selling the division. "They are not going to do a do-it-yourself hanging job."

These larger strategic decisions, will rely on the strength of the yet unproved central strategy unit.

Dr Watkins embarked on this course nine months ago only to find the company did not have the resources to plan the reorganisation. It is possible the management also underestimate how long it will take to introduce change.

A further consideration is that by making the structure of its business clearer Hawker Siddeley may become more of a takeover target. the

But Dr Watkins is not looking for any allies: "Running this company is complicated enough without having to worry about partners."

The reorganisation clearly identifies the tasks Hawker Siddeley faces. But the really hard work is yet to begin.

Edelman's Storehouse stake now below 5%

By Maggie Urry

MR ASHER Edelman, the American arbitrageur who for months stalked Storehouse, Sir Terence Conran's retail group, has reduced his stake in the group to below the 5 per cent notifiable level. Storehouse shares were unchanged yesterday at 117p.

Meanwhile, Storehouse is expected to decide soon whether to sell Richards, its women's fashion chain. Bids have been invited for the chain, which some analysts think could fetch £50m.

Mr Edelman once came close to bidding for the group, which also includes BhS, Habitat, and Mothercare.

In June last year, he talked of a 185p per share bid, valuing the group at £755m, conditional on Storehouse management's agreement.

Mr Edelman built his stake up to 9 per cent at one time. He is thought to have made a sizeable loss on his investment in the shares, but was yesterday unavailable for comment.

Storehouse said yesterday it would be sending out notices under Section 212 of the Companies Act to find out how many shares Mr Edelman still held.

Mr Edelman's interest was first identified in December 1988. In March 1989, Mr Edelman was deemed by the Takeover Panel to have entered an offer period when he said he was considering a bid for Storehouse. A deadline of July 14 was put on the offer period and when that date arrived Mr Edelman had left the UK.

He would have been free to bid again in July this year. But in September he reduced his stake. His latest sale was of at least 3.7m shares, Storehouse said.

Vickers chief gets 37% pay increase

The salary of Sir David Plastow, chairman of Vickers, the engineering, defence and Rolls-Royce car group, increased last year by 37 per cent to £406,996. Vickers saw its pre-tax profits rise by 19.8 per cent to £83.6m in the year to December 31.

Kingfisher pleases City with £207m

By Maggie Urry

KINGFISHER, the retail group which includes the Woolworth, Superdrug, B&Q and Comet chains, reported annual profits for the year to February 3 better than analysts had been expecting. The shares rose by 8p to 289p.

However, Mr Geoffrey Mulcahy, chairman and chief executive had more gloomy words for retailers and Comet, the group's electrical chain, saw a sharp fall in profits.

Group pre-tax profits were £207.4m (£175.3m), excluding profits on property sales, but were boosted by a pension fund holiday worth £6.7m. This holiday is expected to last for at least 10 years.

There was an extraordinary charge of £5.8m related to the costs of bidding for Dixons, the electrical chain. The bid is currently being investigated by the Monopolies and Mergers Commission which is due to announce it findings on April 27.

Mr Mulcahy, who in February 1988 was one of the first retailers to warn of the difficult trading conditions now being experienced, said "the retail sector is facing more than a temporary cyclical downturn and, therefore, it is not just a question of sitting back and waiting for the good times to return."

Kingfisher's strategy, Mr Mulcahy said, would be to increase its share of each segment of the market it operates in and improve efficiencies in the face of costs which are rising faster than product inflation.

Alan Harper

Geoffrey Mulcahy: "It is not just a question of sitting back and waiting for the good times to return"

The year had seen a "robust" performance from Kingfisher and he thought that a rise in fully diluted earnings per share of 14.7 per cent to 29.7p was well ahead of the average likely to be seen from the stores sector.

Group sales were 9.4 per cent higher at £2.9bn and operating profits were 9 per cent up at £245.8m. Interest charges fell slightly to £36m (£38.7m) thanks to a £95.9m fall in borrowings. Year end gearing was 26 per cent.

There was an exceptional gain of £84.9m of profits from sale and leaseback deals.

B&Q, the leading DIY retailer in the UK, increased sales by 7.3 per cent, adding market share in a weak market Mr Mulcahy said. Operating profits were 14 per cent up at £87.1m.

Comet, Kingfisher's own electrical retail chain, increased sales by 6.7 per cent to £519.2m, but suffered a squeeze on margins with like-for-like stores showing a slight fall in volume of sales. Profits were £17.9m, down nearly 30 per cent from £25.5m, in spite of a small profit from the Lasky's chain bought in the autumn.

The Woolworth high street chain increased sales by 8.7 per cent in spite of a reduction in sales area. Profits were up by 10.8 per cent to £55.6m.

Superdrug, the drugstore chain which has expanded rapidly since Kingfisher acquired it in 1987, lifted sales by 20.5 per cent – which includes double figure like-for-like volume gains – and profits by over a third to £29.7m (£22.2m).

Chartwell Land, the group's property division, increased development profits from £15.6m to £19.1m, investment income from £40.1m to £43.3m and realisation profits were down from £4.1m to £3.4m.

The investment portfolio is worth between £550m and £600m of which £100m is in non-retail properties. Mr Archie Norman, finance director, said the group was not exposed to unfunded or unlet developments, and that 27 per cent of the £110m development properties were non-retail.

A final dividend of 7.9p (7.2p) is proposed to give a total of 11.5p (10.5p), a rise of 9.5 per cent.

Sun Life restructuring approved

By David Owen

SUN LIFE Assurance, which yesterday unveiled a 22 per cent increase in shareholders' profits for 1989, is to establish a new non-insurance holding company for the Sun Life Group with the blessing of its two largest shareholders.

Both TransAtlantic Holdings, with 29.77 per cent of Sun Life, and L'Union des Assurances de Paris (UAP), with 25.02 per cent, have indicated their intention "under present circumstances" to vote in favour of the proposal.

When a similar restructuring was suggested in December 1986, it was vetoed by TransAtlantic which complained of undue haste, inadequate safeguards for shareholder rights, and lack of communication regarding diversification plans.

The new holding company, which will be called Sun Life Corporation, will be free from the legal constraints imposed on insurance companies in the UK and will hence escape the burden of dual regulatory requirements on overseas projects.

The new structure is also expected to enhance the group's financial flexibility but was not conceived predominantly with European expansion in mind. "The diversification of the group's activities beyond long-term insurance business has made it increasingly inappropriate that the principal holding company of the group is a registered insurance company," Sun Life said.

Shareholders' profit after tax rose to £28.3m (£23.2m), while retained profits carried forward were lifted by £2.1m to £9.4m.

Much the largest contribution – £19.5m – came from the Sun Life Assurance Society, which raised the proportion of distributed surplus allocated to shareholders to 9.5 per cent. The group intends to increase this to 10 per cent for 1990. Mr John Reeve, managing director, said that the move was "categorically" not made as a result of pressure from large shareholders.

Shareholders received a 14 per cent dividend increase for 1989 to 44.11p (38.69p).

Robert Horne shares are suspended

Shares of Robert Horne, the UK paper merchant, were suspended yesterday pending an announcement. Analysts speculated that an agreed bid from Bührmann-Tetterode, the Dutch paper and office supplies group, was likely to be announced. The two parties have been in merger talks since January, writes Maggie Urry.

Speculation was fuelled because B-T had called then cancelled a press conference in the Netherlands. However, the deal is assumed to have been delayed, not called off.

The ordinary shares were frozen at 435p, up 18p on the day, and the non-voting A shares at 371p, a rise of 17p.

UK COMPANY NEWS

Dissidents exploit leak in shield

David Owen on the background to the challenge to Aquascutum

VISITORS PASSING the stone lions guarding the entrance of Aquascutum's Regent Street flagship store may disagree with Mr Brian Myerson, when he says: "There have been more changes in this company in the past week than there have been in the past 50 years."

With its ostentatious umbrellas and braces, £250 jackets and lack of background music, the outlet still resembles Lord Peter Wimsey's dressing-room.

Mr Myerson is head of Waterfall, the carefully named vehicle created by dissident shareholders to challenge, and perhaps submerge, the classic clothing group's capital structure. Translated from the Latin, Aquascutum means watershield.

Behind closed doors, however, a string of fundamental alterations is in progress.

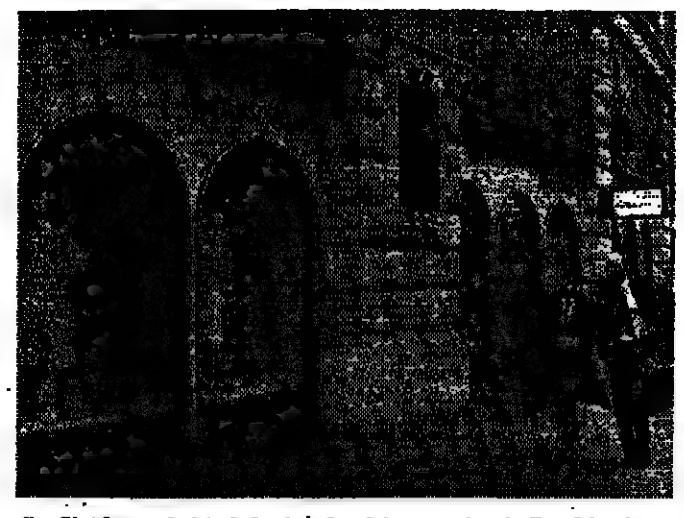
In a nutshell, the two-tier share structure that has protected the company from hostile takeover and assisted the Abrahams family in retaining control for more than 30 years is being dismantled.

Barring the unforeseen, one of the best-known names in the field of quality goods is poised to be put "in play". At yesterday's closing share prices of 153p for the Class A restricted voting shares and 350p for the ordinaries, the group is valued at £53.55m.

The harbinger of change is a clever, meticulously-planned scheme to compel the full enfranchisement of the 27m A shares hatched by Mr Myerson, an expatriate South African, and Mr William Dacombe, a director of financial adviser Campbell Lutyens Hudson and former chairman of WA Tyzack, the Sheffield-based engineering group.

If the Aquascutum board does not consent to this enfranchisement, the Waterfall principals state they will attempt to engineer the company's winding-up under section 110 of the Insolvency Act, later issuing new shares with full voting rights to all existing shareholders.

This threat has teeth because holders of the A



Conflict brews behind the facade of Aquascutum's flagship store

shares are unequivocably entitled to vote on winding-up resolutions – although 75 per cent of shareholders would need to support such a motion for it to be carried. The lack of provision for compensation would also mean that ordinary shareholders would be likely to fare very badly were this course of events to be set in train.

The dissidents appear to have all the angles covered. To guard against alterations to Aquascutum's articles of association, they have accumulated, over the course of about a year, 27.2 per cent of the A shares – exploiting the absence of disclosure requirements for restricted or non-voting securities.

"We can veto any proposed change in the A shares even if every other A shareholder were prepared to vote in favour," says Mr Myerson. "Whether we succeed or not, Mr Abrahams has a nightmare for the rest of his time."

The Aquascutum board has decried Waterfall's "irresponsibility" and criticised the group's unwillingness to disclose full details of its financial backers. What Waterfall has said is that 52 per cent of its stake is held by Symphony Capital, an open-ended investment fund whose major shareholder is the Myerson family, and Oceana Development Investment Trust, mainly owned by the Lewis family, who are also South African expatriates. The remainder, it says, is held by "an American individual" and "a well-known UK entity".

Nonetheless, Aquascutum's advisers admit that "the priority at this stage is to review the capital structure; it is not the intention to dodge that principal issue.

"We are not defending the unequal share structure," they add.

Following the breakdown of talks last week, when ordinary shareholders were offered a one-for-two scrip issue in compensation for the dilution of voting rights, it now seems change is the A shares will not be thrashed out in bilateral session with Waterfall.

"It was argued that their terms were inequitable to the ordinaries by some distance," the advisers say. "Waterfall does not have any God-given right to represent A shareholders."

It is thus still conceivable that Aquascutum may be wound up.

"If they now come back and say: 'We want compensation of 10 new shares for one ordinary,' the answer is 'nuts'," says Mr Dacombe.

The board has been galvanised, meanwhile, into appointing the gregarious Mr Philip Birch as non-executive director. He built Ward White into a retailer of some stature prior to its acquisition last August by Boots. Another director will be named shortly.

Mr Birch, who expects to be "directing the strategy to deal with the way forward", believes that the most important task confronting Aquascutum is to explain to shareholders what progress has been made in the development of the management's plans for the business. He concurs that a vital subsidiary mission will be to review the capital structure.

If the group's cladding against takeover is removed, its ongoing independence, clearly, is likely to depend in large degree on its performance.

Certainly, it will need to improve on its record of the past two years, during which pre-tax profits have fallen from £3.09m to £2.55m.

Certainly too, the septuagenarian Mr Abrahams' view that "a couple of years is nothing" will fall on less sympathetic ears, however solid the progress of the company that his father rescued from bankruptcy in 1932 appears over a longer time frame.

The final judgment on whether Waterfall's raid – bid premiums aside – has precipitated a creation or merely a redistribution of wealth will depend as well on future performance.

Meanwhile the episode will provide grist for debate on various issues ranging from the problems of family-controlled businesses to the advisability of disclosure requirements for restricted or non-voting shares.

The conduct of institutions which have abided by the A shares' restricted voting status may also be called into question. "This has always been in the public domain," Mr Dacombe points out. "We happen to have read the articles of association with greater care than anyone has read them for a long time."

Rockware beats forecast with £10.9m

By Maggie Urry

ROCKWARE GROUP, the packaging and printing concern, which warned of disappointing results in January, managed to beat its forecast for 1989 by a slim margin, reporting pre-tax profits of £10.89m, up from a restated £8.98m in 1988 – a rise of 21 per cent. The shares gained 1p to 51p.

Sir Peter Parker, chairman, said he was "confident that glass, together with our other major businesses, will make further progress in the current year".

Mr Frank Davies, chief executive, said that after years when volumes in glass had fallen as it was replaced by other packaging materials, it was now being viewed as an environmentally friendly package and volumes were rising once more.

More broken glass for recycling was available, reducing energy costs which make up 20 per cent of the price of glass-making. The group could take much more, he said.

In January Rockware had trimmed forecasts back to £10.5m, though earlier hopes had been for profits in the *mid-teens following* three acquisitions late in 1988 – a metal packaging division, the glass packaging business of the Co-operative Wholesale Society and a 75 per cent stake in Dartington Crystal.

Group sales for the year jumped by a third to £252.94m and operating profits by half to £16.55m. However, interest charges of £6.66m (£2.3m), a £1.94m trading loss (£309,000 profit) in the flexible packaging division, and a £1m loss of profits in the glass division while four furnaces were being rebuilt, held down pre-tax profit growth.

Fully diluted earnings per share rose 1.8 per cent to 5.6p.

A change in accounting policies on pension contributions and furnace repair costs depressed 1988 profits by £2.1m and boosted 1989 by £273,000.

The glass division operating profits rose 40 per cent to £10.85m.

Printing profits were down 15 per cent to £1.67m, hit by price cutting in computer listing paper. Plastics profits increased 42 per cent to £1.73m.

The new metals division contributed a £4.24m profit, on sales of £23.21m, the best margins in the group, Mr Davies said.

A proposed final dividend of 1.8p gives a total of 2.5p (2.25p), a rise of 11.1 per cent.

● COMMENT

The irony that after years of diversifying away from glass Rockware now finds that material is returning to popularity is not lost on the group. The problem is that when glass was in the doldrums no one thought it sensible to spend money on new capacity. Now there is a constraint. Nine of Rockware's 13 furnaces are being rebuilt in a two-year period which will stand it in good stead in years to come. And it emphasises the attraction of Rockware to a predator – European packaging groups are anxiously picking up businesses at present. At 51p, Rockware's shares are on a prospective p/e of perhaps 8 which may reflect more the disappointments of the past rather than the future potential.

Senior Engineering up 28% to £17.4m

By Andrew Bolger

SENIOR Engineering Group yesterday reported a 28 per cent increase in its pre-tax profits to £17.4m in the year to December 31.

Turnover rose by 39 per cent to £287m (£207m).

A rights issue in June which increased share capital by 30 per cent limited earnings per share to 6.86p (6.04p). The dividend was lifted to 2.86p (2.6p) via a final of 1.78p.

Mr Roland Smith, chairman, said he was pleased to report another year of progress which had been achieved against a background of unsettled trading conditions, partly due to high interest rates.

He added: "The economic conditions which currently prevail are not the best environment within which to operate our businesses. However, together with the most recent acquisitions we have a strong position in several business areas and with this in mind we believe we can continue to produce favourable results."

Mr Don McFarlane, managing director, said the construction services division had a full order book through into 1991.

Thermal engineering saw operating profits dip from £4.6m to £3.5m, in spite of an increase in turnover from £87m to £116m. Mr McFarlane said there had been difficulties integrating Foster Wheel Power Products, acquired last year, but these had been overcome and he was confident profits would show a healthy recovery.

● COMMENT

Solid, respectable – it was in these rather worthy terms that analysts greeted the results of a group that might be expected to be feeling the chill of economic downturn, with 70 per cent of its turnover in the UK market. In fact Senior was surprisingly bullish about its prospects and says its order books show no signs of softening. The shares closed down 1p at 59p. Forecast pre-tax profits of £21m and earnings of 7.4p in the current year would put them on a prospective multiple of 8. That seems undemanding, given a yield of 7 per cent, and the company seems confident that recent acquisitions will allow it to boost earnings per share as they are digested.

Wace approaches Tinsley

By Nikki Tait

BID POSSIBILITIES surfaced yesterday at Tinsley Robor, the small specialist printing and packaging group, after Wace Group announced that it had built up a near-20 per cent stake and made an approach to the board.

Tinsley, which prints record sleeves and cassette inlays and promotional packaging, said it would discuss the approach with Wace. However, by yesterday afternoon no firm dates for any meeting had been agreed.

Moreover, despite a jump in Tinsley shares from 24p to 34p on the news, the company indicated that its recommendation would not be bought at these levels. Tinsley shares closed at 35p, capitalising the group at just under £9m.

Wace declined to elaborate on the formal announcement, beyond saying that there had been friendly contact with Tinsley's management in the past.

Wace bought some Tinsley shares earlier this month, and on Tuesday acquired a 15.1 per cent holding from Throgmorton Trust, taking its stake to 19.82 per cent.

Bridgend plans expansion

Bridgend Group lifted pre-tax profits for 1989 from £447,000 to £608,000 on turnover from continuing operations of £3.87m, against £3.32m.

Turnover from discontinued operations amounted to £5.28m (£12.87m). Since the year end, however, the company has merged with Woodington, an Irish holding company.

Directors said that the company now had a strong balance sheet and substantial liquid funds and would be examining investment opportunities.

The final dividend is 0.65p, making a total of 1p against 0.85p; earnings per share were 3.1p (2.5p) after tax of £152,000 (£88,000). There was an extraordinary credit of £5.45m (nil).

PUBLIC NOTICES

GROUP PKs LIMITED
IN THE MATTER OF THE INSOLVENCY ACT 1986

COMPANY NOTICES

THE ROYAL BANK OF CANADA
U.S. $350,000,000 Floating Rate Debentures due 2005

In accordance with the Terms and Conditions of the Debentures, the interest rate for the period 30th March, 1990 to 30th April, 1990 has been fixed at 8⅞% per annum. On 30th April, 1990 interest of U.S. $7.31444 per U.S. $1,000 nominal amount of the Debentures will be due for payment. The rate of interest for the period commencing 30th April, 1990 will be determined on 28th April, 1990.

Agent Bank and Principal Paying Agent
ROYAL BANK OF CANADA EUROPE LIMITED

U.S. $40,000,000
Industrial Bank of Finland Ltd.
(Suomen Teollisuuspankki Oy)
Guaranteed Floating Rate Notes Due 1994

In accordance with the provisions of the Notes, notice is hereby given that for the six month Interest Period from 28th March 1990 to 28th September 1990 the Notes will carry an Interest Rate of 8¾% per annum and the Coupon Amount per US$10,000 will be US$447.22.

Merrill Lynch International Bank Limited
Agent Bank

NOTICE TO WARRANTHOLDERS
THE NIPPON FIRE & MARINE INSURANCE COMPANY, LIMITED
U.S. $100,000,000 5¼ per cent Notes 1993 with Warrants

To the Holders of the above-captioned Warrants:

You are hereby notified that the Board of Directors of The Nippon Fire & Marine Insurance Company, Limited resolved on March 14, 1990, that it will make a free distribution of shares of common stock of the Company at a rate of 0.05 share per 1 share of common stock to its shareholders of record as of March 31, 1990.

The issue of new shares by way of the above free distribution requires an adjustment of the Subscription Price for the Warrants.

With effect from April 1, 1990, the Subscription Price for the Warrants will be adjusted from 880.20 Yen to 838.30 Yen.

The Industrial Bank of Japan Trust Company
on behalf of
THE NIPPON FIRE & MARINE INSURANCE COMPANY, LIMITED
Dated: March 29, 1990

UK COMPANY NEWS

UB plans £86m acquisition of Dutch group

By Nikki Tait in London and Laura Raun in Amsterdam

UNITED BISCUITS, the UK-based biscuits, snacks and frozen food group, is making its first move into continental biscuit production, with the planned acquisition of Koninklijke Verkade, a quoted Dutch group.

UB, which said that negotiations had been underway for some time, formally announced plans for "a far-reaching form of co-operation" between the two companies. This, it said, would take the form of a Fl 400 per share offer for Verkade, valuing the group at about £86m. UB calculates that it may be another couple of months before the deal is completed.

Verkade, listed on Amsterdam's secondary market, is a relatively small maker of biscuits and chocolate, although it is a leading player in its home market. In the Netherlands it ranks number one among biscuit makers, with 20 per cent of the market, and number two among chocolate bar makers, with 40 per cent. The group earned about Fl 12m (£3.8m) on sales of Fl 266m in 1989 and employs 992 people. The Netherlands accounts for 60 per cent of Verkade's turnover, followed by France with 28 per cent and Belgium with 6 per cent.

Verkade's agreement to be acquired by UB is a dramatic reversal from its bristly anti-takeover attitude in 1988. Persistently rumoured as a takeover target, Verkade constructed a classic Dutch corporate defence. It issued new preferred shares and placed them in a foundation friendly to management, making it virtually impossible for a hostile raider to gain control.

Yesterday Verkade admitted it had changed its mind about the merits of takeovers.

"The changes in the market are so fast that we thought it would be better to seek expansion – in products, markets, financing and research and development – with a large international firm," explained Verkade. Likewise, the Netherlands will provide a bridgehead to continental Europe for UB.

The premium in the Fl 400 offer price implies a price/earnings ratio of about 22, considerably above the average levels in Amsterdam.

UB already has some snacks interests on the continent. However, despite its extensive interests in the US and UK, it does not have any biscuit manufacturing capacity in continental Europe.

It will fund the deal via additional borrowings. Its net debt was a modest 17 per cent of shareholders' funds at the end of 1989.

See Lex

Bowater tops City forecasts with £100m

By Andrew Hill

BOWATER Industries, the packaging, printing and industrial materials group, pushed profits up from £76.7m to £100m before tax in 1989, beating most City forecasts.

The results were helped by a £7m benefit following the introduction of new methods of accounting for pensions costs.

However, the City – which had been looking for about £90m last year – still marked the shares up by 24p to 479p.

Norton Opax, the specialist printer bought last year, contributed some £8.2m of operating profit in the period from October to the end of the year.

Mr David Lyon, Bowater's chief executive, said he was particularly pleased that the group had managed to push up operating margins on continuing business from 7.5 to 8.3 per cent. He said that contrary to some analysts' criticisms, only about a quarter of Bowater products were supplied to cyclical markets such as the automotive, new construction, electrical and electronic industries.

Turnover was down to £1.29bn (£1.39bn), following disposals, but earnings per share increased by 26 per cent to 58.1p (46.1p). The group recommended a final dividend of 10p to make 18.5p (15.25p) for the year.

The results showed a £58.4m extraordinary gain, principally representing the profit on the sale of Bowater's freight operations.

The £383m cash-and-convertibles bid for Norton Opax helped push up gearing to 131 per cent by the end of the year, against 27 per cent in 1988. Disposals should bring that figure down to about 100 per cent by the end of 1990.

At the time of the Norton Opax offer, Bowater suggested the group's book printing division and publishing activities might be sold, but Mr Lyon yesterday refused to specify which businesses were earmarked for disposal.

The core print and packaging business made operating profits of £52.3m (£29.9m) in 1989, on sales of £516m (£341m). Coating and laminates pushed up profits from £12.8m to £15m on turnover of £128m (£105m).

Building materials generated profit of £21m (£18.8m) from sales of £381m (£349m).

In Australia, tissue and timber made £9.1m (£8.4m) on sales of £129m (£118m), while merchanting and engineering recorded profits of £13.2m (£8.8m) from turnover of £174m (£140m).

Mr Lyon believed there were still further margin improvements to be gained from adding value to packaging products – one of the principal reasons for Bowater's improved earnings in recent years.

See Lex

H&C in $65m iron oxide acquisition

By Nikki Tait

THE INDUSTRIAL realignment of Harrisons & Crosfield continued yesterday with an announcement that the former plantations group has agreed in principle to pay $65m (£40m) cash for the Pfizer Pigments business, part of the large US drug company.

H&C has been steadily diversifying into building supplies and chemicals in recent months, away from its traditional commodity trading and plantations business. Last week it sold the bulk of its general trading division.

Pfizer Pigments has five manufacturing sites in the US – the major one in Pennsylvania – and claims to be the largest US producer of synthetic iron oxides. Its share of the domestic market is estimated at 40 per cent.

H&C calculates that the deal will give it about 12 per cent of the world market for synthetic iron oxides. This would make it the second largest player, although West Germany's Bayer, the leader, is significantly larger.

H&C already produces iron oxide pigments in Europe, principally through a plant near Milton Keynes. This deal will take it into the US and double production capacity. It will also give H&C exposure to higher-quality iron oxide production; much of its existing production concentrates on the lower end of the market.

Pfizer Pigments had sales of $112m in 1989, and made an operating profit – after adjusting the depreciation charge to reflect a lower valuation of the assets in H&C's books – of $8m. The US company will be renamed Harcros Pigments.

Broking improvement lifts Hogg Group to £13.6m

By Jane Fuller

HOGG GROUP, the international insurance broker which has just changed its name from Hogg Robinson & Gardner Mountain, raised pre-tax profits by 30 per cent in 1989.

The taxable figure of £13.62m was scored on turnover up 17 per cent to £93.87m (£80.23m). In 1988, profit fell by 6 per cent to £10.46m.

Insurance broking contributed £11.96m to these latest profits. Mr James Vaughn, chairman, said UK retail broking had experienced the most intense competition in the group, whereas there had been signs that premium-rate cutting was moderating in the US.

On the UK wholesale side, rationalised in 1988, the areas of biggest improvement had been marine and reinsurance.

In the US, Republic Hogg Robinson counterbalanced reduced brokerage with the development of new business and portfolio acquisitions.

The Lloyd's agency business increased profit to £4.29m (£3.83m), including £3.6m from the 1986 profit commissions of divested managing agents.

Mr Vaughn foresaw more acquisition opportunities arising as difficult market conditions took their toll on smaller companies.

Organic growth last year was about 6 per cent and 10 per cent came from acquisitions. Mr Vaughn also stressed the importance of more than two years of cost cutting.

The geographical breakdown of turnover was £46.86m in the UK, £39.84m in North America and just over £7m elsewhere.

Interest costs rose by more than £1m to £2.83m. Earnings grew to 15.16p (11.28p). A final dividend of 4.5p makes a total of 7.25p (6.6p).

This year, forecast pre-tax profits of £15m gives a prospective p/e of about 9.5 on yesterday's closing price of 152p – a 3p gain.

Siebe expands via $12m purchases

By Andrew Hill

SIEBE group, has bought three more control companies for a total of $12m (£7.35m) cash.

Productos De Control Corox has been bought from Electrolux through Robertshaw, Siebe's US subsidiary. The US company is to transfer Robertshaw's electronic controls and thermostat operation from Pennsylvania to Puerto Rica.

The UK group has also added Regulacion Y Control (Re-Con), of Madrid, to its existing manufacturers of industrial and automotive control products. Finally, Siebe has bought Univam, a West German company.

Holmes Protect directors quit

Mr Brian O'Connor and Mr Tom Forrest, former chairman and vice-chairman of Holmes Protection Group, are to resign as directors of the troubled New York security company, receiving compensation, under their contracts, of $1.88m (£1.16m) between them, writes Andrew Hill.

Holmes revealed yesterday that it was in breach of covenants on loan agreements because of losses incurred in 1989, and on the refinancing of principal payments falling due in December 1991.

The group – quoted in London although all its operations are in the US – is in discussions with lenders about the situation.

The company's shares, which are only quoted in London, rose 5p to 17p yesterday. That compares with a peak of 142p two years ago.

Blue Arrow wins approval

Mr Michael Fromstein, Blue Arrow chairman, declared yesterday at a crowded annual meeting in London's Cafe Royal, that about 98.5 per cent of votes cast by shareholders on both sides of the Atlantic were in favour of the new name – Manpower, writes Clare Pearson.

With the change, the company, soon to return to its Wisconsin base, has taken a big step to reverse Blue Arrow's $1.3bn acquisition of Manpower in 1987 engineered by former chairman Mr Tony Berry.

Mr Fromstein also confirmed the forthcoming departure of Mr Norman Tebbit as a non-executive director, due to Mr Tebbit's directorship of BET, the business services group which recently moved into the employment agency sector with the purchase of Hestair.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Ambassador Sec §...fin	0.5	-	-	0.5	-
Atlas Convert § ......fin	10	-	6.5	15	10
Barratt ......int	3.21	May 25	3.21	-	13.39
Boddington ......fin	3.25	-	2.72	5.1	4.3
Bowater ......fin	10	May 30	8.25	18.5	15.25
Bridgend ......fin	0.65	May 16	0.4	1	0.65
Business Tech § ......fin	2.5†	May 11	1.75	4	3
Clayform ......fin	6.5	May 30	6.4	10	9.5
Edmond Hldgs ......fin	1.2	-	1.2	1.65	1.7
Food Industries ......fin	3.3♣	June	2.7	4.9	4.9‡
Frogmore Estates ....int	2.9	May 4	2.6	-	11
Grampian Hldgs ......fin	3	May 16	2.533*	4.3	3.655*
Hawker Siddeley ....fin	15	-	14.1	25	22.5
Hogg Group ......fin	4.5†	July 3	4	7.25†	6.5
House of Lerose ......fin	7.3	June 11	7	10.3	10
Invesco MIM ......fin	3.7	May 19	3.2	6	5.5
Kingfisher ......fin	7.9	July 6	7.2	11.5	10.5
Page (Michael) ......fin	1.2	May 29	1	1.8	1.5
Rockware ......fin	1.3	May 22	1.25	2.5	2.25
Senior Eng ......fin	1.78†	June 1	1.6	2.68†	2.6
Stag Furniture ......fin	4.75	May 18	4.25	7.5	6.75
Weir ......fin	5.5☆	June 15	4.75	8	7

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ☆Carries scrip option. ♣Irish pence throughout. ‡For 18 months.

UK COMPANY NEWS

Orders boost helps Weir improve 17% to £22.4m

By Graham Deller

THE WEIR Group, the Glasgow-based engineer, yesterday announced profits 17 per cent higher at £22.38m pre-tax and a record order intake ahead by the same amount at £250m.

The Viscount Weir, chairman, said order enquiries continued at a high level, with a £21m lift in the past month, including a £10m contract won by its Liquid Gas Equipment subsidiary to supply cargo hauling plants for three liquefied gas ships.

Additionally, Weir Pumps, the largest company in the group, has been awarded a contract, valued at "well over" £6m to provide pumpsets and systems equipment for a sewage supply project in the Middle East.

The increase in profits came on turnover ahead 35 per cent to £232.05m (£171.37m) and was struck after exceptional credits amounting to £2m (£1.39m).

The outcome was reduced, however, by a pension provision of some £1m as a result of the group's implementation of SSAP 24.

During the year, Weir acquired Hopkinsons Ltd, a valve manufacturer, from Hopkinsons Holdings. The operation "fits very well into our spread of specialist engineering activities" the chairman said. "Since joining the group, they have made a rapid return to profitability."

After tax increased to £4.72m (£3.2m) and minorities of £46,000 (nil), earnings per share emerged at 29.3p (26.8p). The total dividend for the year is raised by 1p to 8p via a recommended final of 5.5p.

Clayform Properties just ahead to £18m as interest rates bite

A SLIGHT increase in pre-tax profits, from £17.42m to £18.03m, was yesterday announced by Clayform Properties, the property developer and investor, for 1989.

Mr Bryan Burletson, chairman, said that the year had been divided, with funding and tenant demand both strong in the first half. However, as high interest rates began to bite, confidence was reduced significantly by the last quarter.

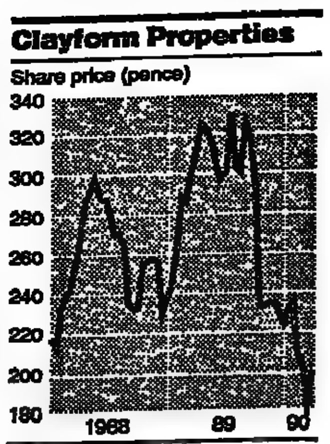
He said the company had kept to its policy of minimising financial exposure, reflected in the large increase in net assets to £150.69m (£103.7m), representing net assets per share of 410p (310p).

The group's property portfolio increased by £7.8m over the 1988 valuation, and is currently valued at £65.8m.

In July Clayform bought the outstanding shares in Stead & Simpson. Following a business review its retailing strategy was refocused. Nine of its surplus units were re-let by December at considerably enhanced rents. Although shoe retailing sales slipped during the last quarter, Stead & Simpson contributed £1.3m to group profits.

On prospects for 1990, Mr Burletson said the results would depend on when general business confidence returned and the speed at which the company could prudently reduce its debt. Interest charges for 1989 soared to £8.49m (£76,000).

Clayform Properties



Turnover rose 67 per cent to £82.42m (£49.44m), but the cost of sales increased to £62.06m (£29.08m). Share of profits of associated companies was £8.23m (£245,000).

Earnings per share worked through at 36.7p (35.2p) and a final dividend of 6.5p is recommended for a 10p (9.5p) total.

● Dunloe House Group, the Dublin-based property company which became a subsidiary of Clayform last month, reported pre-tax profits of I£892,000 (£857,000) for 1989 against I£412,000. Earnings per share improved to 4.42p (1.26p) and net assets were 40.3p (35.3p).

Food Industries rises to I£8m

By Kieran Cooke in Dublin

FOOD INDUSTRIES, the Dublin-based agribusiness, announced pre-tax profits of I£8.08m (£7.7m) for 1989.

For the previous 18 months I£6.1m was reported. A final dividend of 3.3p is recommended, for a 4.9p total.

Launched two years ago, Food Industries is 68 per cent controlled by Mr Larry Goodman, the Irish businessman whose Goodman International group of private companies has grown into Europe's largest meat processing and exporting concern.

It groups together most of Mr Goodman's non-meat interests, including grain handling and storage, maltings, cold storage, jam making and milk processing. It has been involved in a number of highly competitive battles for control of Irish milk co-operatives and has substantially increased its milk supplies over the last year.

The company warned that prices paid to its milk suppliers would drop due to a fall in world prices. But Food Industries said it intended to maintain "long-term milk price leadership" in the north-east of the Irish Republic where it plans to amalgamate some co-ops.

It has ambitions to be one of the main players on the European agribusiness scene by the mid 1990's. The company has options on a 9 per cent stake in Unigate, the UK dairy group, purchased by Mr Goodman in late 1988.

Mr Goodman is separately involved in takeover speculation surrounding Berisford International. He is one of Berisford's largest shareholders, recently expanding his stake to more than 13 per cent.

Turnover for the year amounted to I£126.76m (I£97.44m). Earnings were shown as 18.74p (16.05p).

NEWS DIGEST

Frogmore doubles to £19.96m

ALTHOUGH Frogmore Estates, the property investor and dealer, achieved a rise in interim pre-tax profits from a depressed £9m to £19.96m much of the improvement stemmed from the sale of Crown House in the Aldwych in October.

Profits from trading activities for the half year to December 31 fell from £7.39m to £5.32m while profits from investment property sales surged from £1.62m to £18.05m.

Tax accounted for £5.89m (£2.81m), leaving trading activity earnings at 3p (12.9p), and those from investment property sales at 32.2p (1.8p). The interim dividend is being raised by 11.5 per cent to 2.9p.

The directors said the current market climate would probably result in a comparatively low level of activity and profit during the second half.

They added that Frogmore was in a secure financial position with a low level of gearing and most of its borrowings at fixed rates substantially below present interest levels.

It was pointed out that the company's exposure to new development was minimal and demand for existing accommodation, which is being re-let following refurbishment, remained good.

The directors said the company was well placed to withstand the effects of a major downturn, should it occur, and had an active presence in the market. They believed the future would allow Frogmore to re-invest advantageously.

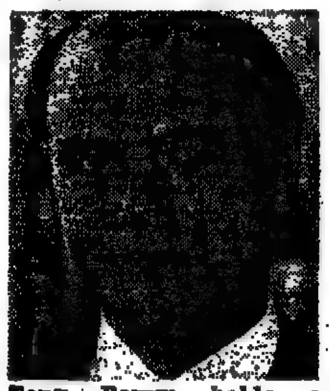
Atlas Converting advances to £5m

From a turnover some £7m ahead at £28.9m, Atlas Converting Equipment lifted taxable profits from £3.37m to £5.05m for 1989. The USM-traded company makes slitting and rewinding machines, vacuum metallisers and vacuum furnaces.

The results benefited from a rise in interest income from £343,000 to £560,000. Earnings amounted to 39.7p (26.5p) and a final dividend of 10p makes a 18p (10p) total.

Business Technology up 33% to £3.61m

Business Technology Group, the USM-quoted office equipment distributor where former Blue Arrow chief Mr Tony Berry holds a substantial stake, yesterday unveiled a 33 per cent rise in taxable profits for the year to December 31.



Tony Berry: holds a substantial stake in company

The outcome, up from £2.71m to £3.61m, was described by Mr Peter James, chairman, as a "creditable achievement" given difficult trading conditions and the group's reorganisation.

The core business contributed profits of £2.78m (£2.7m) on turnover of £38.37m (£25.66m). At the start of the year, the group moved into lease broking through the purchase of Compass, which put in £830,000 to profits on turnover of £2.17m.

Mr James expressed caution over current year prospects but reiterated the group's intentions to expand its office automation interests both by acquisition and organic growth.

Earnings per 10p share edged ahead to 16.78p (15.44p) and a proposed final dividend of 2.5p lifts the total by 1p to 4p.

The group also announced plans to move up to the main market.

Rising interest hits Edmond Holdings

Edmond Holdings, the housebuilder, raised operating profits to £5.34m, against £5.19m in the year to December 31. However, after interest charges which jumped from £318,000 to £1.18m the pre-tax profit was reduced from £4.89m to £4.18m.

Mr Andrew Naish, chairman of the company, which operates in Hull, the Midlands, East Anglia and south Wales, said that with turnover at £16.93m, compared with £19.07m, Edmond had been able to improve operating margins to over 30 per cent. The number of homes sold last year fell from 372 to 281, but he was confident that the company would exceed the 1988 figure in the current year.

A final dividend of 1.2p is proposed, making a total of 1.85p (1.7p). Earnings per share fell to 5.55p (6.71p) after tax of £1.37m (£1.51m).

Overseas earnings lift Michael Page

Michael Page Group, the executive recruitment agency, achieved a 26 per cent improvement in pre-tax profits to £5.92m for the 1989 year from a turnover £11.27m higher at £50.84m.

Net interest income rose to £236,000 (£193,00) but tax took £457,000 more at £2.24m. Earnings emerged at 6.05p (4.9p) and a final dividend of 1.8p makes a 1.8p (1.5p) total.

The international businesses, which now account for 31 per cent of group profit, achieved outstanding growth with turnover and profits showing significant increases.

The directors anticipated that the current adverse trading conditions in certain sectors of the UK and the Australian employment markets would result in a difficult first half. However, they looked forward to the year as a whole as being one of further satisfactory progress.

Stag up 13% on declining volumes

In spite of a marginal decline in volume levels, Stag Furniture Holdings improved 1989 profits from £2.12m to £2.39m pre-tax.

The 13 per cent advance was struck from turnover just 4 per cent ahead at £41m (£39.32m). Interest charges rose by £141,000 to £336,000.

The dividend is stepped up by 0.75p to 7.5p via a final of 4.75p, paid from earnings of 17.8p (15.3p).

An extraordinary provision of £237,000 related to the closure of the factory at Letchworth, Hertfordshire, with the loss of up to 285 jobs.

Directors said that although volume levels were slightly lower, profitability improved due to cost control measures and the introduction of more efficient manufacturing techniques.

Stag ended 1989 with a strong balance sheet and gearing of 10 per cent.

Mr Patrick Radford, chairman, pointed out that demand for Stag's products in the early part of 1990 had enabled the company to replenish a weak opening order book.

He saw no prospect for an early reduction in interest rates, but expected to see some improvement in margins during the second half.

Ramsden's chips in with £467,000

Harry Ramsden's, the fish and chip restaurant operator, made pre-tax profits of £467,000 in the year to October 1 1989, pipping its flotation target by £7,000.

Traded on the Third Market since November, the company had sales of £1.73m. Tax took £164,000, leaving earnings at 5.1p per share. There is no dividend.

Ramsden's said that the current year had started well with both sales and profits in the first quarter ahead of last year and ahead of budget. At the flotation, profits of not less than £600,000 were forecast for the year to September 31 1990.

Strong progress at Ambassador

Expectations of a strong second half at Ambassador Security Group materialised with a profit for the full year of £625,000, up 38 per cent on the £453,000 reported in 1988. The group, a security systems specialist, joined the USM in July and achieved £272,000 (£182,000) in the first half.

Turnover in 1989 rose 41 per cent to £2.1m (£1.49m). Interest took £127,000 (£80,000) and a dividend of 0.5p is being paid from earnings per share of 4.48p (4.13p) basic and 4.08p (3.34p) fully diluted.

Explaura losses little changed

Explaura Holdings, the USM-quoted group with quarrying interests in Canada, chipped £2,000 off its pre-tax losses in 1989, ending the period £76,000 in the red. The loss per share was 0.66p, against 0.08p in 1988.

Explaura described the year as "one of significant progress". Lower Cove Quarry was certified in commercial production and "one of the world's largest cement producers" may use limestone quarried there; construction work was completed in the autumn, though aggregate produced could not be washed due to the cold.

There was an extraordinary charge of £342,000 relating to the cost of demerging Gander River Resources and the writing off of exploration costs.

PUBLIC WORKS LOAN BOARD RATES

Effective March 28

Years	Quota loans repaid: by EPT†	At††	at maturity§	Non-quota loans A* repaid: by EPT†	At††	at maturity§
1			15			15¾
Over 1 up to 2	14¾	14¾	14¼	15¾	15¾	15
Over 2 up to 3	14⅜	14⅜	13¾	15⅜	15⅜	14½
Over 3 up to 4	14⅛	14	13½	15⅛	16	14⅛
Over 4 up to 5	13⅞	13¾	13⅛	14⅞	14¾	13⅞
Over 5 up to 6	13⅝	13½	13	14⅛	14	13½
Over 6 up to 7	13½	13⅜	13	14	13⅞	13½
Over 7 up to 8	13⅜	13¼	12⅞	13⅞	13¾	13⅜
Over 8 up to 9	13¼	13⅛	12¾	13¾	13⅝	13¼
Over 9 up to 10	13⅛	13	12⅝	13⅝	13½	13⅛
Over 10 up to 15	12⅞	12⅝	12	13⅜	13⅛	12½
Over 15 up to 25	12¼	11⅞	11⅝	12¾	12¼	12⅛
Over 25	11¾	11½	11½	12¼	12	12

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

UK COMPANY NEWS

Housebuilder provides further confirmation of flat conditions prevailing in sector

Depressed Barratt falls 26% to £24.1m

By Andrew Taylor, Construction Correspondent

FURTHER EVIDENCE that the collapse of the UK housing market is inflicting a heavy toll on builders, which only 20 months ago were in the middle of a boom, was yesterday provided by Barratt Developments.

Barratt, the country's third largest housebuilder, announced a 26 per cent decline, from £32.5m to £24.1m, in pre-tax profits for the six months to end-December.

Mr John Swanson, chairman, said the number of home completed by the group was 17 per cent lower during the half-year. That was a creditable performance compared with sales falls announced by other large builders, he added.

Barratt said that sales for the financial year ending in June would be be about a tenth lower. Mr Swanson pointed out that the group had been assisted by its strength in the north of England and Scotland. These regions had been less badly affected by the sharp rises in UK mortgage interest rates.

He said 1990 would be a difficult year. During the second half of 1989, UK housebuilders had started work on 70,000 private homes compared with 104,500 in the final six months of 1989.

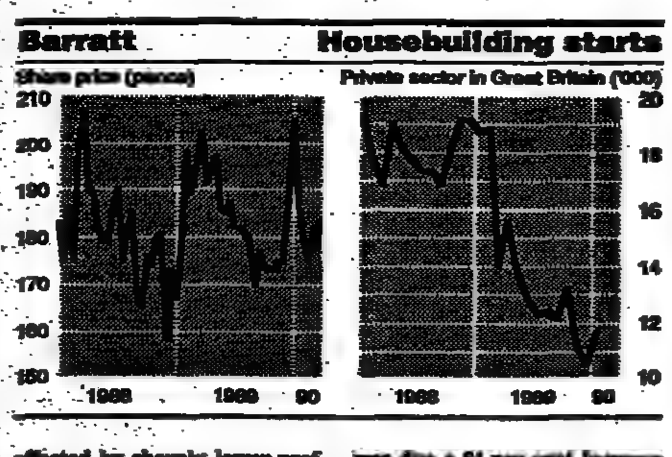
Over the same period, Barratt's interest charges had risen from £7.3m to £11.9m. The rise was partly due the cost of holding unsold houses acquired by Barratt under its part-exchange sales incentive scheme. At the end of December the group had a stock of 815 such homes with a combined value of about £20m.

Barratt said operating profit from UK housing had fallen from £28.5m to £25.4m. Selling overheads had increased by about 3 per cent. Borrowings at December 31 represented about 60 per cent of shareholders funds but this was expected to fall to about 50 per cent by the end of June.

UK profits had also been affected by sharply lower profits from commercial property of £900,000 against £4m. Barratt's timeshare business also made a further loss.

Group operating profits, before interest charges, however, were only slightly down from £35.8m to £35.1m. This was due a 24 per cent increase in Californian housing profits to £9.7m which included about £2m from land sales.

Earnings per share fell from 12.4p to 8.7p in spite of a 12 per cent increase in turnover from £246.8m to £276.9m. The interim dividend is maintained at 3.2p.



● COMMENT

Barratt will have performed well to restrict the fall in UK house sale to more than a tenth in what is one of the worst housing markets for 30 years. The cost of pursuing sales can be measured by the increase in interest charges. This was caused in part by the demands put on the company's part-exchange scheme. The problem the company faces is that it has very few places to shelter when storm clouds gather over the UK housing market. Barratt has done well out of California but parts of this market are now softening. Contracting is too small to make much difference; property profits for the moment are in decline. Profits of £58m would put the the group on a prospective p/e of about 9.5, a rating which depends upon a high yield rather than prospects of a recovery which could be 12 months away.

Boddington ahead to £16.2m

By Clare Pearson

BODDINGTON Group achieved a 10 per cent rise in pre-tax profits from £14.81m to £16.24m in 1989, the year in which it sold its brewing interests to Whitbread to concentrate on its leisure and healthcare interests.

Boddington entered 1990 with gearing of only 10 per cent, and very low bank borrowings, after raising £54m from the brewery disposal last September. It had made £50m worth of investments and disposals during the year.

Total turnover rose to £127.6m (£96.32m). Minus that related to discontinued businesses, it stood at £112.85m (£79.77m). Fully-diluted earnings per share were 11.1p (10.5p).

A final dividend of 3.2p is being paid, making a total of 5.1p (4.3p) for the year.

Trading profits of continuing activities were £18.68m (£14.18m). After a £2.2m (£1.67m) surplus on disposal of licensed premises, operating profits rose to £20.84m (£15.86m). Net interest payable was £8.62m (£2.73m).

The company said a rise of more than 30 per cent in both turnover and trading profits demonstrated the success of its actions. The company now had four arms: pubs, hotels and restaurants, drinks and health care.

About 50 per cent of turnover came from pubs, about 20 per cent each from hotels and restaurants and drinks wholesaling, with healthcare making up the balance.

Mr Dennis Cassidy, chairman, said that the group "now participates in a number of markets which offer excellent prospects for sustained profitable growth. The Board is confident that this will be demonstrated unequivocally in 1990."

Early this year Boddington announced a significant investment, budgeted at £15m, in a £45m leisure complex in Blackpool, to be developed in conjunction with Amec, the construction company.

● COMMENT

Mr Cassidy has not been afraid to back up his strikingly confident stance with a hefty dividend increase, but investors still have little information on which to assess Boddington's prospects. 1989 was indeed a year of clearing the decks and the group has certainly emerged with four distincts divisions; but since it is not supplying any breakdown of profits, followers remain in the dark about precisely how they are doing. Certainly the south of England-based nursing homes, albeit the smallest part, are not likely to see occupancy levels rise much while the property market remains in the doldrums. Meanwhile, the development of the hotels and restaurants interests remains at an early stage. Analysts yesterday suggested that pre-tax profits might reach about £20m this year. The shares have substantially underperformed the market in recent months, reducing the prospective p/e to about 10, while the prospective yield is nearly 6 per cent; but it is hard to see their attraction on other grounds.

Telecomputing losses mount to £0.78m after R&D costs

TELECOMPUTING lost £777,000 before tax in the year to September 30 1989 due to high research and development costs and the change in accounting procedures to write off such spending.

A £312,000 loss was incurred in the comparable period, adjusted to reflect the accounting change. Turnover in the latest period fell from £3.11m to £2.52m.

The loss per share increased from 4.31p to 16.47p and again there is no final dividend.

Substantial restructuring and rationalisation have taken place under the new board since November when Ferrari Holdings gained a 29.8 per cent stake.

The directors said yesterday that the USM-quoted company had returned to profit in the second quarter and acquisitions were being sought in the software market.

A share placing and open offer have been undertaken to raise about £500,000. This will eliminate borrowings and provide resources to exploit opportunities.

BOARD MEETINGS

TODAY

Interims- Bridport-Gundry, Burton, Continental Microwave, Druck, Melville, Molyneux Estates, Murray Ventures, Town Centre Securities.

Finals- Acal Energy, Brooks Service, Burmah Oil, Capital & Regional Properties, Citygrove, Clarkson (Horace), Dauphin, Dolphin Packaging, EW Fact, European Home Products, Excalibur Clothes, Gardner (DC), Joyce, Laing Properties, London Forfaiting, Macfarlane, MMW Computers, Pearson, Polly Peck International, Portmeirion Potteries, Radius, Redland, Relyon, Storm, Thorpe Garden, United Newspapers, Wembley, Western Motor, Wilkes (James).

FUTURE DATES

Interims-	
Beckman (A)	Apr. 5
Finals-	
Arley	Apr. 3
Avonmore Foods	Apr. 4
Barry Starquest	Apr. 30
Brandon	Apr. 6
Bye (Wimbledon)	Apr. 6
Britt	Apr. 10
F & C Pacific Inv Trust	Apr. 12
Jacks (William)	Apr. 6
Lec Refrigeration	Apr. 4
Proudfoot (Alexander)	Apr. 11
Rockfort	Apr. 10
Swift Cowells	Apr. 4
Waco	Apr. 10
Worcester	Apr. 3

Invesco lifts profits 31% in spite of insurance losses

By David Barchard

INVESCO MIM, the investment management group which changed its name from Britannia Arrow in January, yesterday reported a 31 per cent advance in pre-tax profits during 1989 to £35.5m against £27.09m previously.

UK & Jersey investment management reported profits ahead from £18.45m to £22.77m, while international investment management contributed £18.97m (£10.23m).

There was a loss of £1.11m on insurance (£1.5m profit).

Profits from investment and other income fell from £6.35m to £3.78m.

There was also an exceptional profit of £391,000 (£429,000 loss) from a write-back of a provision against a loan to the Trustees of the Share Option Trust.

Lord Stevens of Ludgate, the chairman, said the record results in the UK and Jersey Investment management operations were particularly encouraging, though the results of Invesco's North American subsidiaries, particularly mutual funds, were somewhat disappointing.

Invesco purchased Invesco Capital Management of Atlanta in December 1988 and in February this year announced that it was setting up a $3bn joint venture with IMI of Italy in anticipation of the single European market.

Fully diluted earnings per share rose to 10.0p (8.1p) and a final dividend for the year was proposed of 3.7p (3.2p) bringing the total dividend for the year to 6.0p (5.5p).

Turnover rose by 75 per cent from £879m to £1.54bn. Funds under management at the year-end increased from £17bn ($31bn) to £24bn ($39bn).

There were extraordinary profits of £6.4m (£7.9m).

The shares closed 2p lower at 123p.

Grampian Holdings rises 16% to £12.1m

By Jane Fuller

GRAMPIAN HOLDINGS, the Scottish mini-conglomerate whose interests include sheep dip and golf balls, increased pre-tax profit by 16 per cent to £12.11m in 1989.

Sales grew by 11 per cent to £120.55m, with sports goods delivering the biggest chunk – £42.86m. Yet, in profit terms, it was the only one of the four divisions to fall back, from £3.02m to £2.37m.

Mr William Hughes, chairman and chief executive, said the main reason for this had been a loss at Patrick International, the French sports shoe business. Grampian had not taken full control of the subsidiary until November, which had delayed cost-cutting.

Meanwhile Ben Sayers had a successful year in golf; Mitre increased sales of footwear and balls for soccer, rugby and cricket, but fierce competition from the likes of Adidas and Puma had meant slower profit growth; and Penfold had done reasonably well in spite of the influx of cheap golf balls fished out of lakes in the US.

The group's star performer was animal health pharmaceuticals which contributed the most profit – £5.37m (£4.04m) – on sales of £28.87m (£26.36m). Mr Hughes said UK sales had been held back by a reduction of sheep dipping from twice a year to once, but that prices had held firm.

Grampian, which opened a new vaccine factory in Essex in the period, had benefited from the departure of big drug companies from the animal sector. The hot summer had helped sales of fish vaccine as warmer water had propagated disease.

While transport had a good year, delivering £3.04m (£2.68m) profit, Mr Hughes warned that cost pressures had intensified, especially because of the Chancellor's increases in diesel and excise duties.

In retail, the strategy had been to withdraw from high-street sites in the south, while building up the tourist mill-shops. About £800,000 had been saved through the merger of Pitlochry Knitwear and Moffat Woollens, and a similar exercise would be carried out with James Pringle, bought in December.

That acquisition had sent gearing to 37 per cent, but Mr David McGibbon, finance director, said it should come down to about 20 per cent this year.

Earnings per share advanced to 13.66p (12.35p).

A proposed final dividend of 3p will make a total of 4.3p (3.67p adjusted).

● COMMENT

An endearing feature of Grampian's management is that enthusiasm for its diverse activities goes hand-in-hand with a relish for cutting costs. The application of the latter to the Patrick business should prevent sports goods from being this year's laggard. The snag is that it might be replaced by an uphill struggle in transport. Animal pharmaceuticals remains the most exciting prospect, particularly if the recent West German purchase can be followed by expansion into France, Europe's biggest national market for these drugs. A taxable profit this year of £15m and share price of 154p gives a prospective p/e of about 10. Grampian's rating has drifted down with other small, UK-exposed companies – and partly because of the Patrick disappointment. It now looks worth buying again.

Setback at Lerose

House of Lerose, a designer and manufacturer of ladies' fashionwear, returned profits of £1.07m pre-tax for 1989, a decline of 12 per cent on the previous year's £1.22m.

Turnover rose by £2.83m to £19.32m and earnings emerged 0.5p ahead at 14.7p after taking account of a £170,000 lower tax charge of £236,000. A final dividend of 7.3p makes a 10.3p (10p) total.

Lex transfers

Lex Services is transferring two franchises held by Hawke Components to its Jermyn and Impulse offshoots. Discussions are taking place on the sale of the remaining Hawke Components business to the existing management and a third party.

Lex is also discussing the possible sale of Hawke Systems, the UK computer systems distributor, to the management.

TECHNOLOGY

Dave Madden tells how the backlog of software applications is stifling development

The odds against a quick return

The bad news is that the suffocating backlog of unwritten computer applications is still with us. The really bad news is that despite the noisy arrival of much-vaunted automated design and programming tools, it is growing.

Price Waterhouse's 1989 Information Technology Review asked rhetorically how much of this backlog is still to be cleared, and surmised that the backlog is too big to measure.

David Broughton, executive director of software house BIS Applied Systems, estimates that it takes the average IT department three to four years to generate a new system of any consequence. Little wonder then that many new systems are out of date before they are delivered.

Moreover circumstances are conspiring to compound the problem. "There is a massive increase in demand for software. There is pressure for shorter timescales. As the cost of hardware falls, more applications recommend themselves. Business people are more aware of what IT can do and familiarity with personal computing has given them greater expectations," argues Broughton.

The IT community is making a determined effort to deliver maintainable systems when they are needed. Poor productivity, staff shortages, and the backlog have fuelled the explosion in sales of packaged software. It has also encouraged an interest in re-using code to produce new programs.

But the most intense activity is in the area of automation, both of the design and production processes, using Case (Computer-aided software engineering) tools. The British Computer Society inaugurated a Case special interest group just over a year ago. Its chair, Katy Spurr, reports that it has more than 400 members.

Kevin Berry, chief analyst at John Lewis Partnership, says that making a commitment to automation "is like dropping an enormous rock in a small pond. It affects absolutely everything. It is like transplanting the backbone of an organisation. It even influences the way you lay out your offices."

Similarly there is no certain path to short-term productivity improvement. IT consultancy Butler Cox has published a three-year study of some 350 projects as part of its Productivity Enhancement Programme.

Andy Milner, the programme's director, says that only two of 10 productivity tools – screen painters and programmer workbenches – were of any benefit. People using project management tools, analyst workbenches, and report generators, for example, believed they were worse off. Butler Cox reports that the software written with these tools was unreliable.

In comparison, statistics from software consultants James Martin Associates describe typical improvements in design quality and productivity of 4:1 and 3:1 respectively. But there is already a consensus among some Case users that short-term productivity is a red herring.

Case tools may deliver marginal improvements in some environments. But in others the development process can take longer because the tools demand a more rigorous degree of front-end analysis than manual methods. Similarly, James Martin Associates notes that despite productivity gains at, for example, Volkswagen/Audi, overall delivery times have not improved.

Ironically James Martin Associates's Rapid Application Development, a management approach based upon the experience of its senior users, such as Dupont in the US, is an attempt to speed up its own systems delivery and to help users show a quicker return on their investment.

BIS reports high interest in its own version of this "fast path" systems building, Rapid Development Method. Principal consultant David Parton says the technique requires a radical change of philosophy. It trades sophistication for speed of development and forces users to make choices about functional priorities and cost. Perhaps most significantly it relies on small teams of users and IT staff developing the system together.

BP Oil expects fast "throw away" prototyping to improve the quality of its end-product – minimising design defects and mismatches, and ensuring that systems do what users want them to. According to Richard Coward, deputy programme director of BP Oil: "Business users have only a hazy idea of what they want. Prototyping is very powerful. It helps us get much closer to what's needed." It is in this area of systems quality that the big benefits of automation begin to emerge.

The other significant contribution will come from stretching what Berry calls "the life expectancy of systems." Software maintenance, says Berry, is "the everyday battle of IT." Some 65 per cent to 80 per cent of systems effort is spent on keeping existing systems going, and ironically the most experienced systems users bear the greatest burden.

Berry adds that this brings personnel problems. "The people attracted to IT now just get bored with maintenance," he says. As a result there is a trend for users to put software maintenance out to third parties. In turn, says Broughton, there is a lot of energy going into re-engineering of programmes (turning old code into manageable data models).

But maintaining 20-year-old accounting systems is not the point. It is in building manageable and flexible systems in future that the payback will come. The real proof, says Berry, will be if the new systems adapt to business changes without huge disruption.

Stuart Wilson, head of IT strategic planning at Rolls-Royce, says that historically Rolls-Royce "invested a lot of scarce resources in modifying programmes to reflect organisational change. What we ended up with was a systems spaghetti."

It is precisely to avoid this in future that Rolls-Royce has made a commitment to Integrated Case, which will automate the whole gamut of its systems analysis, design and production. "The real benefit will be in the cost of ownership of systems – in the cost of making enhancements and changes in the long term," says Wilson.

The approach demands a big cultural change. It has required hard analysis of Rolls-Royce's business processes and the information needed to support them. As a result the entire emphasis of the systems design effort has shifted to the front of the development cycle.

Tony Bartlett, systems consultant in British Airways Information Management quality unit, describes another approach. BA has spent three years looking at Case product developments, and is now in the process of implementing a standard set of methods and tools. "The benefit will be quality," says Bartlett. "It is vitally important that our systems support the business, and are flexible enough to cope with the rapid changes of a global airline."

Bartlett says that Case tools by themselves will not offer significant benefits. He outlines a minor revolution of BA's IT working practices including its training programme, in which Case is probably the least critical element.

He adds that BA's programme is stimulated in part by the need to compete against "external offerings", and to maintain its IT professionalism. BA has to be attractive to recruit the right staff, he says, and increasingly that means offering an automated environment.

Similarly, Unipart, the automotive parts manufacturer, has spent $2m implementing Ernst & Young's Information Engineering Workbench product. The company says that it now has better trained and more marketable systems staff. Staff turnover is also down.

For all its current shortcomings, there can be little doubt that if anything can burst the systems development bottleneck it will be the automation of design and programming.

WORTH WATCHING
by Clive Cookson

Appreciating the sound of silence

ANYONE who has travelled on a crowded train or bus recognises the irritation caused by the throbbing bass notes or other noises that leak out from personal stereo sets, writes Della Bradshaw.

So does Sony, which invented the Walkman, the first personal stereo. The Japanese electronics manufacturer has employed advanced computer aided design techniques to develop a pair of earpieces which fit snugly into the human ear to minimise the unwanted sounds. The company has studied the variety and shape of human ears in coming up with the new design.

The new Walkman is already on sale in Japan, and will be sold in the UK later this year under the Silent Walkman name. The company is now considering whether or not it should sell the headsets seperately, to be used with the world's 57m existing Sony Walkmans.

PC market keeps on growing

THE UK personal computer market grew by 30 per cent to £1.6bn in 1989, according to Context, a specialist computer market research company. More than 700,000 PCs were sold during the year.

The average price of a PC remained about £2,200 during 1988 and 1989. Sales of up-market PCs based on Intel's 80386 processor increased rapidly (they accounted for 40 per cent of the market by value in 1989, compared with 23 per cent in 1988). This compensated for the falling price of PCs based on Intel's older 8086 and 8088 processors (from an average £1,045 in 1988 to £816 in 1989).

IBM was again the best selling PC manufacturer in 1989, with 27.6 per cent of the UK market by value. Compaq was next with 19.8 per cent, followed by Apple (7.9 per cent) and Amstrad (6.2 per cent), then Apricot, Toshiba and Tandon (about 5 per cent each).

The figures include all sales of PC hardware by retailers, distributors and other indirect channels. They do not count direct sales by manufacturers to end users, which Context partner Jeremy Davies estimates were worth about £240m in 1989. Software sales amounted to a further £300m.

Sludge finds its place in stone

BURNING sewage sludge to produce heat or to generate electricity, instead of dumping it at sea, sounds like a very good idea on both environmental and energy-saving grounds.

But engineers designing sewage-fired power plants face many practical problems – notably the fact that the sludge is wet. In the conventional sewage incineration process, driving off the water can consume as much energy as is gained through combustion.

Bradshaw Handley, consulting engineers in Blackburn, Lancashire, have developed a sludge drying technique, based on a process called mechanical vapour recompression (MVR), which leads to a substantial overall energy surplus when sewage is burned. It keeps within the system the latent heat of evaporation that is lost in the conventional process when water is driven off into the atmosphere.

As an alternative to burning, the dried sludge can be used for cement manufacturing. The first such plant based on the Bradshaw Handley MVR process is in Switzerland. The company is now discussing with several water companies and local authorities in the UK the possibility of building power stations to burn sewage sludge – on its own or mixed with methane gas extracted from landfill refuse sites.

Crystal clear superplastic

A SUPERPLASTIC material created by Japanese researchers at the Government Industrial Research Institute, Nagoya, could be useful for many mechanical applications, especially for making wear-resistant components such as engine parts.

Superplasticity is the ability of a material to stretch exceptionally when it is pulled. The Japanese material, a crystal composite of silicon carbide and silicon nitride, is superplastic when heated to 1,600 deg C. It can therefore be formed or moulded very easily for engineering applications. At lower temperatures the material is strong and hard-wearing.

The material, described in this week's edition of Nature, is the first covalent crystal in which superplasticity has been observed. (In a covalent crystal the atoms are chemically bonded together – unlike an ionic crystal in which electrically charged ions are held together by electrostatic forces.)

The Japanese researchers believe that the material becomes superplastic when microscopic crystal grains begin to slide over one another, lubricated by a liquid phase between the grains.

Not rubbing off in the UK either

ASSOCIATED Newspapers, the pioneer of flexographic printing in the UK national press, is introducing colour printing at its new "flexo" plant at Harmsworth Quays in London's Docklands.

The flexo process, described on Tuesday's Technology Page, uses a water-based ink instead of the oil-based inks of conventional letterpress or offset printing; the advantages are that the ink is less liable to rub off on the hands and colour reproduction looks crisper and clearer.

The eight Koenig and Bauer flexo presses at Harmsworth Quays have been fully operational since last October. Although Associated Newspapers has had teething troubles with the plant, the company says that these have largely been sorted out. It is now thinking about launching an extensive advertising campaign based on their "no rub off" ink.

Contacts: Sony: Japan, 03 448 2111. Context: UK, 01 937 3622. Bradshaw Handley: UK, 0254 62113. Government Industrial Research Institute: Japan, 052 911 2111 ext 576. Associated Newspapers: UK, 01 [illegible].

FT LAW REPORTS

Secrecy is the badge of fraudulent behaviour

By Clive Boxer

Those who enjoy watching the judiciary trying to deal with the consequences of fraudulent behaviour would be interested in the case of *Lipkin Gorman v Karpnale Ltd*[1]. At the end of last year, the Court of Appeal rejected allegations by a firm of solicitors that a bank manager was to blame as much as their dishonest partner for defalcations to their client's account.

Two members of the court ruled that if the firm did not plead fraud against the bank so that the manager knew that it was being alleged that he had acted dishonestly, they could not make the allegations at the trial.

The partner had acted fraudulently. He was an inveterate gambler. But the bank manager had not been negligent in not appreciating that the solicitor, who was a salaried partner, was acting fraudulently by embezzling clients' monies to satisfy his compulsive weakness. The bank could not be a constructive trustee particularly as no such allegations had been specifically pleaded against it.

There was no evidence of negligence on the part of the bank manager and although Lord Justice Nicholls would have been more tolerant of the failure to plead dishonesty against the bank manager, he, like Lord Justice Parker and Lord Justice May was quite convinced there had been no breach of contract by the bank in not having spotted what the dishonest partner was up to.

The bank manager might have known that the solicitor had an insatiable appetite for gambling but he had no reason to believe he was a thief, particularly from his employer.

Lord Justice May said: "If the solicitors' submissions were to be accepted, it would, in my view, place on banks a wholly unrealistic burden, for it would involve the manager of a bank which held a solicitors' client account and also the personal accounts of one or more of the partners, with power of signature on the client account, continually monitoring the personal and client accounts for signs that one of the partners might be abusing his signing powers."

That was not the law. The solicitors thus failed to recover from the bank the sums that had been embezzled.

Whilst the Court of Appeal was grappling with one part of this case, Mr Justice Millett was giving judgment in a case which also involved a fraudulent operation but where allegations were pleaded fully and clearly.

In *Agip (Africa) Ltd v Jackson and others*[2], a firm of accountants was sued by the plaintiffs, an oil company, which had been defrauded of monies by one of its employees. The accountants had been instructed by a French lawyer to set up a series of companies which in turn received money from Tunis originating from the plaintiffs. The monies were then passed out of each of the companies through the accountants' own account to another company. They were then passed to France, ostensibly to a French jewellery company.

Between March 1983 and January 1985, sums totalling $10.5m were systematically stolen by the plaintiffs' chief accountant. It was his duty to take signed payment orders to the company's bank in Tunis for onward transmission. From time to time the chief accountant fraudulently altered the name of the payee after the order had been signed and directed the payment to a recipient of his choosing.

The payees were all companies registered in England and managed by the defendant accountants and their employees from the Isle of Man. The case being tried by Mr Justice Millett involved $518,822.92. The company had sued its own bank in Tunis, and for reasons not known, were unsuccessful. It now tried to recover against the partners of Jackson and Co, the firm of accountants who practised in Douglas, Isle of Man.

Only one of the firm's partners had really known anything about what was happening. There was no evidence to show that the partner and the employees of the practice who were involved in what turned out to be laundering of the money had any idea it was fraudulently embezzled. As soon as they were put on notice that it could be, such monies as they still controlled were paid into court.

That they were suspicious that something might be wrong was shown by their taking legal advice as to their position. Further, there was evidence to show that what was going on was an attempt to evade Tunisian exchange control regulations.

The judge did not have any evidence from any of the defendant accountants or their employees to explain their behaviour. He considered carefully the legal authorities and came to the conclusion that the plaintiff's right to trace the monies passing through the accountants' control only existed in equity.

He decided there was no breach of a constructive trust unless they knew they were receiving the money in breach of trust or were using the money for a purpose that was in breach of trust, for example, for their own use or benefit.

There was no evidence to show that anything like that had occurred. But said Mr Justice Millett, a stranger to a trust will be liable to account as a constructive trustee if he knowingly assists in the furtherance of a fraudulent and dishonest breach of trust. The basis of the stranger's liability (in this case the accountants) is not the receipt of trust property but participating in the fraud.

Knowledge can be inferred from the circumstances. These can be: (i) actual knowledge; (ii) wilfully shutting ones eyes to the obvious; (iii) wilfully and recklessly failing to make enquiries as any honest or reasonable man would do; (iv) knowledge of circumstances which indicate the facts to an honest or reasonable man; and (v) knowledge of circumstances which would put an honest or reasonable man on enquiry.

The accountants in this case were held to be liable because of (iv) and (v). One of the partners and one employee knew that the monies came from the oil company; that it was going to a jewellery business in France; that $10m had gone this way over quite a short period; that they got their instructions from the recipients of the money and not the plaintiffs; they knew of no connection between the plaintiffs and the recipients of the money in France; and they ought to have realised that they were being used as a conduit for the elaborate distribution in order to conceal the destination of the money.

As the judge put it, "secrecy is the badge of fraud." They ought to have realised at least that their clients might be involved in a fraud on the plaintiffs.

Because the accountants had not given evidence to explain their behaviour, the judge was not prepared to adopt an explanation which was necessarily favourable to the partners realising as they may have done that this was a subterfuge if only to avoid exchange control regulations.

The judge said: "A man who consciously assists others by making arrangements which he knows are calculated to conceal what is happening from a third party, takes the risk that they are part of a fraud practiced on that party." The accountants made no enquiries of the plaintiffs because they thought it was none of their business. That is not honest behaviour. The sooner that those who provide the services of nominee companies for the purpose of enabling their clients to keep their activities secret realise it, the better."

That was enough to make them liable to account as constructive trustees for all the missing money not already paid into court. It was no defence that had they made enquiries the crook behind the fraud might have told them a credible pack of lies. They were liable because they assisted in the misapplication of the money. The failure to make enquiries which honest man would have made to satisfy themselves that they were not engaged in furthering a fraud "is merely the evidence from which their dishonesty is inferred."

Every professional adviser who has ever been involved in setting up and managing nominee companies should be looking hard at the terms of their professional indemnity policy as a result of this case.

But the case does not end with professionals. Directors who serve on the boards of such nominee companies ought to be similarly concerned at being at risk. They should be considering adequate directors' and officers' liability insurance protection.

It is understood that an appeal to the House of Lords in *Lipkin Gorman* is not going to affect the Court of Appeal's decision on the liability of the bank. The defendant accountants are also appealing against the decision in favour of the plaintiffs in the *Agip* case.

[1] *[1989] 1 WLR, 1340*
[2] *[1989] 3 WLR, 1367*

The author is senior partner of solicitors Fishburn Boxer.

Way cleared for extension of cocoa agreement

By David Blackwell

COCOA PRICES closed in London at the highest levels for nearly six months as the International Cocoa Organisation (ICCO) agreed key financial decisions which will allow the moribund international agreement to be extended beyond September.

The price rise of the past week or so has been largely technical, but has been underpinned by the political unrest in the Ivory Coast, the world's biggest producer, and uncertainty about the situation in Brazil following the sweeping economic reforms. May cocoa on the London Futures and Options Exchange (Fox) closed at £772 a tonne yesterday, up £20 after a day of heavy trading.

While there has not been much producer selling, manufacturers have come back into the market. In addition there is a large open interest on May call options at £800 a tonne, and option granters have been covering their positions.

The mood of the market may now be changing, one analyst suggested. "I think the manufacturers are coming in because they feel the market has reached a turning point," she said.

If anything, the news from the ICCO's London headquarters yesterday should have been bearish – but the market took it in its stride.

Delegates had already agreed in principle that the international pact should be extended for two years from September without economic provisions. Yesterday they agreed to abolish from April 15 the $30 a tonne levy on imports and exports of cocoa; to authorise the sale of 2,125 tonnes of cocoa from the organisation's 250,000-tonne buffer stock; and to fund the second year of the extension either through sales from the buffer stock, or through producing member-countries paying off some of their $140m debt to the organisation.

These were the major financial hurdles which had to be cleared if the proposed extension to the agreement was to go ahead. The talks continue to the end of this week.

Receiver appointed for Brazilian Coffee Institute

By John Barham in Sao Paulo

THE BRAZILIAN Government has at last appointed a receiver to close down the Brazilian Coffee Institute (IBC). Mr Fernando Vicente de Mello Alves, a Central Bank liquidator, is to sell off the IBC's assets and transfer its responsibilities to other government or private agencies.

The institute, which regulates production and export of coffee, was abolished by decree on March 15, but is to continue operating until its successor agencies are ready to take over.

It is expected that the Economy Ministry's trade department will handle exports and that the Agriculture Ministry will oversee production. However, it is still unclear who will establish Brazil's coffee policies and who will hold the IBC's buffer stock, which is currently said to be worth $8bn.

The IBC's sudden closure threw both its staff and the coffee market into confusion. Exports have come to a standstill for lack of IBC supervision and because the new Government's economic measures froze savings, withdrew liquidity from the economy and allowed the Brazilian cruzeiro to float upwards, making exports unprofitable in local currency terms.

No IBC or Economy Ministry officials were available to comment on local newspaper reports that the Ministry has allowed coffee exports to resume without full IBC documentation. Customs officers at the port of Rio de Janeiro are reported to have begun accepting quality certificates issued by private classification services to allow exports. No estimates are available on the amount of coffee exported in this way.

Inco man sees steady nickel price this year

By Kenneth Gooding, Mining Correspondent

AS THE nickel price rose strongly on the London Metal Exchange yesterday, Mr Peter Salathiel, vice president for primary metals marketing at Inco, the world's largest nickel producer, said that the price had probably reached its low point of the year in January.

"Assuming that economic conditions in the industrial countries remain positive, nickel prices should continue to strengthen," he said.

While not willing to give a firm price forecast, he said nickel would probably trade in a range between $8 and $5 a lb this year. The metal averaged just over $6 a lb in 1989.

The LME price of nickel for immediate delivery rose by $200 to $9,525 a tonne ($4.32 a lb) on the LME yesterday while three-month metal was up $275 to $9,237.50 a tonne ($4.19 a lb).

Traders said the firmer tone appeared mainly to reflect protective short covering in anticipation of a fresh wave of buying from European steel mills.

Mr Salathiel contributed to this sentiment by pointing out that a recovery in stainless steel production (accounting for more than 60 per cent of nickel usage) was expected as excess stocks of stainless were liquidated. "Liquidation has been completed in the US. Order books for stainless are strengthening in Europe and should pick up again in Japan in two or three months."

Mr Salathiel was speaking at a financial "roadshow" in London associated with the floatation next month of shares in Inco's Indonesian subsidiary, PT Inco.

He forecast that nickel demand this year was likely to remain about the same as in 1989 at 1.45bn lbs whereas western world production might well fall short of that level after being in balance with consumption last year. Producers had announced cuts of 50m for this year and these would not easily be restored because they were associated with plant maintenance.

Stainless steel output was likely to be between 9.5m and 10m tonnes.

Mr Salathiel said the Soviet Union, primary supplier of nickel to the LME, was likely to keep exports of the metal at about 80,000 tonnes this year.

Greek agriculture – ancient and modern

Full advantage has not yet been taken of EC membership, reports Kerin Hope

IN THE plain surrounding the northern Greek city of Salonica rows of neatly espaliered pear trees are being pruned. Irrigation pumps hum beside fields of sugar beet and the cows have an unmistakably Dutch look.

This is Greek agriculture at its most competitive: in the nine years since accession to the European Community, a high proportion of farmers have switched to crops with substantial price support.

Farther south, however, where traditional vine and olive cultivation is reinforced by citrus and vegetable growing, the picture is different. The 100-hectare farms of Thessaly and Macedonia – large by Greek standards but tiny in comparison with northern European acreages – give way to plots of three or four hectares. These are often fragmented into separate fields scattered among scrub-covered hillsides grazed by lean sheep and goats.

"The structure of Greek agriculture is fundamentally so different from the rest of the Community that we haven't been able to get as much out of the CAP as other members, although Greece is still a strongly agricultural nation," says Mr Pavlos Pezaros, a senior Agriculture Ministry official.

Officially, there are 850,000 farmers in Greece who represent 24 per cent of the workforce. But the figure is misleading since traditional Mediterranean agriculture is by no means a full-time activity: it also includes wives and daughters, few of whom work regularly on the land now that mechanisation is widespread. Productivity is half the EC average and agriculture contributes just 16 per cent of GDP.

The farm population has declined by an estimated 100,000 since the late 1970s. But because most farmers are still exempt from paying income tax, people who have jobs in the towns cling to their olive and fruit trees as much for the fiscal status as the income they provide.

Greece rushed to seek full EC membership after the collapse of the 1967-74 military dictatorship, during which its association agreement was frozen. The haste was partly due to the Conservative Government's determination to eliminate the possibility of another political upheaval by attaching the country as firmly as possible to western Europe.

Few wives and daughters now work regularly on the land

Accession in 1981 came under conditions that might have been more favourable for Greek farmers had the preparations been better. Later that year, the Socialists came to power burdened with ideological doubts about EC membership. Almost three years passed before they changed their minds and took an aggressive approach to securing Community funds.

Farmers have received more than 75 per cent of the Dr1,332bn (£5bn) paid to Greece since 1981 in Community subsidies and structural funding. Cotton, maize, hard wheat, tobacco and olive oil production have increased, reflecting both support levels and Community demand.

Three years ago total agricultural production passed the Dr1,000bn mark, up from Dr97bn in 1975. However, if production is reckoned in 1980 drachmas the increase is negligible: from Dr215bn to Dr219bn. At the same time food imports tripled to reach $2.33bn in 1988, reflecting an overall growth in incomes which fuelled a dramatic shift in consumption patterns.

Lentils and other pulses used to be an essential part of the Greek diet, especially in the countryside. Now meat and dairy products are in daily demand, even in the provinces. Meat imports alone totalled almost $900m in 1988.

Local livestock production inevitably failed to keep pace with demand: the climate makes it impossible to produce red meat at prices that can compete with the northern Community members. Beef production has declined by 17 per cent since 1981, while sheep and goat numbers have increased by less than 5 per cent. That is partly due to low CAP support, but also to the young farmers' reluctance to become shepherds. Now that Community subsidies are likely to be calculated by weight rather than numbers, the 7m-head sheep flock, which is slaughtered young and covers 90 per cent of local needs, may start to decline.

Dairy output is stable and still within Greece's quota, although there are indications of change. With help from local milk co-operatives, one of which organises trips to the Netherlands to acquire know-how, Salonica farmers are starting to raise herds of around 30 cows.

"That's a big change from keeping one or two. It's profitable but it means a change in mentality: you can't just take the day off if you keep cows," says Mr Alecos Patazos, president of the Agno milk co-operative.

Indeed, traditional attitudes, which call for hours of political discussion in cafés at slack times of year or taking on another job, may be partly responsible for the lack of structural improvements. Farmers have spent much of their increased income on raising their standard of living, often through building new homes. They have bought tractors, powerful status symbols, rather than new irrigation equipment. In fact, structural investment in agriculture has declined by 35 per cent in real terms since 1981.

The Socialist Government, anxious to shut out the middlemen who bedevilled Greek farmers in the past, tried to modernise the farm co-operatives into efficient processing and exporting units. But intense politicisation combined with lack of management expertise brought disastrous results.

Total co-operative losses since 1981 are estimated to total Dr300bn. In one of several well-publicised embezzlement scandals, Agrex, a quasi-government company formed to boost fruit exporting, closed down with debts of Dr2bn.

"Greek farmers are certainly market-oriented but they need much better education, both on technical matters and how the Community works," says Mr Yannis Vezirogiou, a Salonica farmer also involved in seed importing.

Despite the increase in incomes and structural benefits, which will include Dr120bn from the Integrated Mediterranean Programmes by 1992, the general feeling is that Greece failed to take full advantage of the opportunities offered by the Community in the 1980s.

The trend forecast for the 1990s is of a continuing drift away from the land, assisted by the EC plan for early retirement for farmers, which has been eagerly subscribed to in Greece.

"The decline will speed up as Community subsidies are reduced under the new farm policy and we'll see bigger, more efficient farms and a farm population perhaps as small as 100,000," says Dr Napoleon Maraveyas of Athens Agricultural University.

Turkey still under the shadow of last year's drought

By Jim Bodgener in Ankara

TURKISH AGRICULTURE is not now likely to recover in 1990 as much as previously expected from last year's driest summer in half a century, according to Western experts in Ankara. Precipitation this winter across the country has been less than normal in many areas.

The experts expect the wheat crop to be no more than 13m tonnes, compared with about 14m tonnes in an average year and 1988's bumper harvest of 18m tonnes. Wheat production may also suffer because some seed held back by farmers from the last harvest may be substandard, they add.

The Government's growth target for the year of around 4.7 per cent now looks out of reach. That will also mean economic growth will not recover much beyond 3 to 4 per cent from the desultory 1.1 per cent expansion in gross national product caused by the drought last year. The Government had set a growth target of 5 to 6 per cent.

"Only exceptional rains in April and May will mean recovery to average yields," according to one expert.

Snow and rainfall has been patchy across the country. The variation has been most acute in central Anatolia while Thrace has remained very dry. Precipitation has been about normal in the south and south-east and above average in some eastern areas.

Many reservoirs are low at a time when they should be brimming with snow-melt and winter rains – overall, that has meant a picture slightly below average. Even fallow lands have relatively less moisture because of the exceptionally long dry spell stretching back into autumn 1987, which again will affect next year's crops.

The situation is nowhere near as serious as this time last year, when scant moisture had entered the soil across Turkey, apart from the northern Black Sea coast, since October 1988. Agricultural output contracted by 10 per cent in 1989 compared with a 7 per cent expansion the previous year.

The total cost of last year's drought in lost exports and forced imports is estimated at approximately $2bn.

On present trends Turkey will remain to be a net grain importing country. Apart from wheat shortfalls, 500,000 to 600,000 tonnes of maize may be needed for animal feed, and possibly nearly as much again of barley.

A large requirement for rice is also possible, although there still may be significant stocks. Last year, Turkey was forced to import 200,000 tonnes of rice, about 150,000 tonnes of which came from the US.

A fierce controversy has developed over rumours, denied by US suppliers, that the rice is low in nutritional value because of allegedly being seven years old, and is being dumped at lower prices in Turkey.

The political cost to the Government at a time of deep electoral unpopularity for the ruling Motherland Party (ANAP) has yet to be counted. Agriculture is important in Turkey, employing around half the labour force, and accounting for 17.9 per cent of gross domestic product. Despite some reforms having been implemented in the past decade, subsidised support prices and interest rates have remained a bone of contention with the EC and the World Bank.

Recently, however, the Government has also come in for a great deal of popular criticism stirred up by the opposition over its agricultural policies. First, there was a decision in January to cut tariffs on fruit and vegetables, in the interests of EC harmonisation, followed early in February by increases in tobacco support prices that fall well short of the inflation rate.

Bullion market seeks removal of VAT

A PLEA for the UK government to press for a zero rate of value added tax on bullion as part of the European Community's 1992 harmonisation process was made last night by Mr Robert Guy, chairman, at the biannual dinner of the London Bullion Market Association, writes Kenneth Gooding. "Many of us think that gold is money and it should be tax-free," he said.

A zero, or very low, rate of VAT would, among other things, revive the flagging sales of the Britannia gold coins, said Mr Guy, adding his weight to the campaign for the removal of the UK's 15 per cent VAT on bullion.

WORLD COMMODITIES PRICES

MARKET REPORT

COPPER prices were soaring on New York's Comex by midsession yesterday after closing steady on the LME. At the New York market traders said the uptrend mainly reflected buying interest for cash metal from two oversold US copper producers. Just before the end of the morning session the spot March futures position, which was expiring at the end of the day, was 1.35 cents up at $1.23 a lb. Commenting on the reported producer buying one dealer said: "This is very positive for futures, if the guys bringing it out of the ground don't even have enough." At the London Metal Exchange copper rallied late in the day after dipping to a 4-week low earlier on. The cash price closed £1 down at £1,579 a tonne, while the three months position was £10.50 lower at £1,540.50 a tonne. But afterhours buying lifted the three months price to £1,558.50 a tonne at the final kerb close. Dealers said the late rise was mainly influenced by the Comex surge. London coffee prices were boosted by renewed concern about the civil disturbances in the Ivory Coast, a big producer of the robusta variety traded on Fox. The May price ended the day £13 up at £575 a tonne.

Compiled from Reuter

London Markets

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. x-Mar/Apr. t-May/Jun. v-Apr/Jun. w-Apr/May. z-Apr y-May. ¶Meat Commission average fatstock prices. * change from a week ago. ψLondon physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Mar	757	756	760 742
May	772	746	776 758
Jul	788	762	788 770
Sep	796	774	801 780
Dec	816	796	824 806
Mar	840	819	845 824

COFFEE – London FOX

SUGAR – London FOX

POTATOES – IPE

SOYABEAN MEAL – IPE

FREIGHT FUTURES – IPE

GAS OIL – IPE

CRUDE OIL – IPE

GRAINS – IPE

WOOL

South America has been a source of cheap wool and tops in the world market but much of what it has to offer has been sold and prices are much closer to levels aligned with the Australian floor price basis. In Australia itself superfine merinos are meeting with good competition at firmer prices, as supplies become restricted towards the close of the season. With sterling firmer against Europe export sales from Bradford are falling off after earlier improvement. UK activity is still below capacity, interest rates are dominant in trading policies and margins are under constant pressure.

PIGS – BFE

LONDON METAL EXCHANGE

LONDON BULLION MARKET

TRADED OPTIONS

New York

US closing prices were not available for this edition because of the temporary widening of the UK/US time gap.

INDICES

Chicago

LONDON STOCK EXCHANGE

Early gains trimmed before the close

THE UK stock market was a calmer place yesterday following the shakeout of the previous trading session. Share prices staged a cautious recovery at first on the back of Wall Street's strong performance overnight. But there was little buying pressure and the early gains were cut back when the new session in New York opened without much sign of further enthusiasm.

Market volumes died away again in London and it was left to the corporate reporting list to provide the day's features. Turnover melted away in late afternoon when the market's worries over domestic inflation were re-awakened as Tesco, Britain's biggest food supermarket chain, outbid its rival employers in the wages bidding war among the UK high street traders.

Inflationary concern continued to dog the scene throughout the day as Mr Robin Leigh-Pemberton, the Governor of the Bank of England, told a UK Parliamentary Select Committee that the cost of living could go higher than the 9 per cent peak expected this summer by the Chancellor, Mr John Major. Nor were financial markets encouraged by the Governor's view that it is "extremely optimistic" to expect a big fall in domestic interest rates until well into next year.

However, the equity market was largely concerned with its own technical situation again. The first half of the session brought a rebound from Tuesday's selling bout, with the Footsie future briefly achieving a nine point premium. However, this premium was soon reduced and the underlying stocks were quick to follow suit.

At best the FT-SE Index showed a gain of just over 14 points before the cooler trend at the end of the day left it with a closing reading of 2,275 exactly, only 8.8 up on the session. Seaq volume fell slightly to 359.5m shares from Tuesday's 385.9m and traders saw little sign of the big institutions.

"This week has indicated that equities are still in a trading range between 2,180 and 2,300, with the higher end re-instated on Monday", commented the head trader at a leading UK house.

There are still few sellers in the market, but it was also clear this week that there are few serious buyers of equities at the top end of the trading range. Many fund managers have now closed their books for the first quarter of the year.

Corporate profits statements continued to flow across trading screens. The retail sectors found some comfort from good results at Kingfisher. A heavy fall in first-half profits at Barratt Developments, a leading UK housebuilding firm, merely underlined the gloom hanging over a sector which has proved deeply vulnerable to the high level of interest rates in the UK.

Account Dealing Dates		
*First Dealings:		
Mar 12	Mar 26	Apr 9
Option Declarations:		
Mar 22	Apr 5	Apr 26
Last Dealings:		
Mar 23	Apr 6	Apr 27
Account Day:		
Apr 2	Apr 17	May 8

*New time dealings may take place from 9.00 am two business days earlier.

Rally on Thorn sale plan

Thorn EMI shares rallied ahead of and after news of its involvement in talks which could lead to the sale of part of its defence business. The shares closed 12 higher at 680p after turnover of 2.5m.

The market had been full of stories yesterday that Thorn was about to announce the sale of its defence businesses. In the event, the company said it was discussing the possible sale of Systron Donner, its aerospace subsystems and components subsidiary in California, to a newly-formed company, BEI Electronics, which includes Systron's senior management.

One Thorn follower said that the company would probably get $50m (£30.7m) for the business, a figure well below the $100m it could have expected to realise only a year ago. "The price being offered recognises the low prices being paid for US defence businesses. We had expected all of Thorn's defence businesses to go; it's very much an anti-climax."

Thorn has fallen sharply in the past couple of weeks following a profits downgrading by UBS Phillips & Drew. Other downgrades are expected by the market.

Bowater improves

Bowater Industries jumped 24 to 479p after the company disclosed full-year profits 30 per cent higher at £100m. Dealers reported good two-way trade at the higher levels.

Researchers raised their forecasts for the current year across the board after a good-tempered analysts' meeting. Mr John Kenny at BZW said organic growth was good, margins were holding up and that the integration of last year's acquisition, Norton Opax, was going smoothly. He lifted his estimate for this year's profit from £108m to £116m.

Mr Geoff Allum at County Natwest WoodMac agreed that the figures were good, but was more cautious in his new 1990 estimate of £112m, up from £105m. He said that earnings per share this year would be low because of dilution from the Norton Opax acquisition.

Hawker disappoints

The engineering and aerospace sectors which have seen *a spate of good results* in recent weeks found no cheer in the figures from Hawker Siddeley. The figures revealed a £6.2m loss at Hawker Siddeley Power Engineering, the company's electrical power contracting subsidiary, which left profits at £202m, compared with £183.7m last year. The shares fell 11 to 629p as turnover reached 2m shares. Hawker also unveiled its much-discussed restructuring plans.

Mr Rory Sweetman at BZW said the company's markets would continue to tighten this year "and thus Hawker Siddeley will need the recovery in contracting, acquisitions and cost-saving benefits to sustain 8 per cent growth this year. The reorganisation will be important but not until 1991."

Mr Sandy Morris at County Natwest agreed the figures had disappointed, cut his 1990 forecast by £5m to £222m, and predicted 1991 profits of £237.5m. However for the long term, he said: "Hawker Siddeley offers solid reliable earnings growth."

LASMO hit again

LASMO shares, poor performers over the past week or so as stories of a big oil discovery in the Westray exploration well have been replaced by talk of a more modest result, suffered another minor shakeout yesterday. The latest weakness accompanied talk that the company's Modigliana exploration well in Italy has proved dry, although there was no confirmation of this from the company.

Some determined selling pressure, coupled with a marking down by marketmakers anxious not to take on more stock, left LASMO 7 off at 598p after 1.3m shares changed hands. One specialist said the disappointment in Italy was "hardly the end of the world" and that the drilling operation "was always regarded as high risk." The market is still waiting for official news on Westray.

New developments in the bid battle for Laing Properties brought erratic movement in the shares. The price jumped 13 to 660p as Pall Mall, a joint company controlled by P&O and Chelsfield, raised its stake to 30.43 from 23 per cent and made an increased final cash offer of 725p per share.

P & O's broker, Panmure Gordon, and Rowe & Pitman, bought the Laing stock for 725p, picking up 4.4m from institutions, who were offered 725p cash.

When the news of the increased bid hit the market, Laing rose briefly to 700p. Once Panmure and Rowe stopped bidding the shares fell back.

Despite Pall Mall's success in raising its stake, analysts were uncertain whether its offer was high enough to win control of the property company.

"The market is saying that this level is not sufficient," said Mr Gareth Evans of Charterhouse Tilney, pointing to Laing's ability to hold at the higher levels. "In fact the offer looks inadequate. It will be easy for Laing to pick holes in it."

A profits downgrading by County NatWest WoodMac left Midland Bank shares languishing in the wake of the other clearers. At the close the shares were a penny off at 341p, after having been 337p. Mr John Aitken at County, lopped £25m off his estimate of Midland's 1990 profits to £585m. He said: "on our revised data the rating is now too high."

Three main reasons are cited for the swingeing cut in estimates. They are, he said, problems in the treasury department, increasing costs arising from the newly set-up First Direct operation and new regional processing centres, and the loss of many cheap interest-free current accounts.

The other leading banks made strong progress and were highlighted by Natwest, which advanced 11 to 353p on turnover of 3.2m shares, and Standard Chartered, up 17 at 545p on 1.6m. Merchant bank S. G. Warburg rose 12 to 471p after keen support from one source.

Sun Life's annual figures were well received and the shares edged up 15 to 1229p.

There were few features in the UK chemicals sector on the day that BASF, the West German chemicals group, reported good results.

ICI continued to languish, after the recent warning from Cham Systems, the Anglo American consultancy, about a continuation of the downturn in Europe's petrochemicals sector. The shares closed 3 down at 1110p.

Buying interest following recent weakness was noted in London International where the shares added 4 to 232p. Also wanted were Amersham, whose shares gained 10 to 308p.

Brewing sector analysts visiting Grand Metropolitan's US operation Pillsbury communicated to colleagues in London their pleasure at what they saw. Demand for the the stock picked up and the price rose 18 at one point before settling 12 higher on the day at 605p. Dealers at one securities house spoke of the possibility of profit upgrades for the current year of between £5m to £10m.

Regional brewer Boddington firmed 5 to 140p after posting full-year profits 10 per cent higher at £16.2m.

Analysts raised current year forecasts for Kingfisher after the company posted profits 31 per cent higher at £294.7m. Mr Steve Oldfield at BZW said that although the figures included a pension fund-related gain, when this was stripped out for the purposes of comparison the profit was still above the top end of the range of expectations.

He raised his estimate for the current year by £15m to £325m, identifying the good margins at diy chain B&Q as particularly good. "The diy sector has bottomed out," he maintained. The shares climbed 11 at one stage before profit-taking trimmed the gain to 4 at 288p.

Ladbroke, which owns the Texas diy chain, benefited from the Kingfisher results and closed 7 up at 305p.

Sears shed 2 to 95p as the market caught wind of what it thought was a sell recommendation from S. G. Warburg. In fact Warburg published a 27-page preview of the stores results season which included the suggestion that investors should buy Marks and Spencer. If they did not want to increase their weighting in the sector they should consider switching out of Sears and Laura Ashley, said Warburg. The official recommendation on Sears is hold.

Laura Ashley slipped 2 to *56p, while M & S firmed* a penny to 198p. Sears was also hurt by talk, widely disbelieved, that the Fayed brothers were selling part of their 10 per cent stake in the company.

Shares in Molins, the cigarette machinery manufacturer, firmed 5 to 251p, as the company rejected a £75.9 hostile bid from Leucadia.

The bid became inevitable after IEP Securities, controlled by Sir Ron Brierley, the New Zealand businessman, which twice bid for Molins, decided to sell its 33 per cent holding in the company at 252p a share. Dealers and analysts believe the bid is unlikely to succeed.

Dowty gave up 7 to 199p after BZW weighed in with a profits downgrading. The broker cut expectations for the year to March 1990 by £5m to £82m, and lowered expectations for 1991 by £8m to £102m. BZW blamed the cut on the effect of strikes in the first half of the year.

A profits warning at Bullough's annual meeting sent the shares 21 down to 106p.

Lancaster jumped to 179p but eventually closed at 174p on profit-taking after it was announced that Zung Fu, 75 per cent owned by Jardine Matheson, had made an agreed £31.6m (185p a share) offer for Lancaster.

The prospect of strong sales of the new Rover 400 car produced by British Aerospace subsidiary Rover Group helped sentiment surrounding the stock and the shares added 9 at 506p.

Amstrad extended the good run triggered some weeks ago by visits to the group's headquarters by two leading brokers; the shares adding 2 more at 68p on good turnover of 4.5m.

GEC, where Kleinwort Benson joined the list of brokers to cut profits estimates, slipped 2 more to 203p. Kleinwort lowered its current year forecast by £30 to £875m and that for next year by £70m to £950m.

Micro Focus, soon to report preliminary results, advanced 40 to 573p, still responding to the buy recommendation recently issued by Mr Keith Woolcock at CCF Laurence Prust.

Robert Horne "A" rose 17 before the listing of the shares was suspended at 371p. Dealers assumed that an announcement on the long-discussed agreed takeover by Bührmann-Tettrode, the Dutch paper and office supplies group, was imminent. The ordinary shares were suspended at 435p.

Tinsley Robor, the paper and packaging company, jumped 11 to 35p after Wace, a pre-press services supplier, revealed it had bought 3.84m shares, or 15.1 per cent, at 28p each. Wace now has 19.82 per cent stake of Tinsley.

The announcement late on Tuesday that Midsummer Leisure was in talks which might lead to a bid left the shares 37 higher at 165p. The list of those named by traders as possible suitors was headed by Rank Organisation.

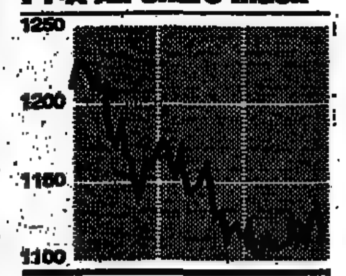
The latter's shares were down 3 at one point but recovered to close unchanged at 778p after the company announced a $40m US acquisition. Others on the list included European Leisure, 3 lower at 80p, and Mansfield Breweries which closed 7 cheaper at 438p.

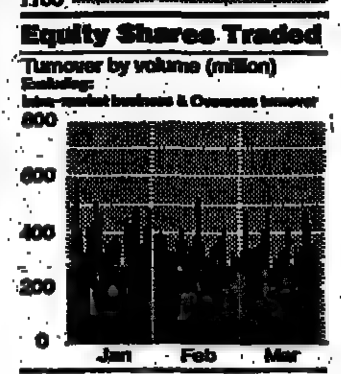
Mecca Leisure continued to weaken ahead of figures due next week. The shares have been hit in recent days by speculation that the company's activities in bingo or casinos have run into difficulties.

The shares were another 7 off at one point before suggestions that any problem might simply be a one-off balance sheet item pulled the shares up to 117p, still a decline of 3 on the day.

USM-quoted Atlas Converting Equipment vaulted 60 to 585p, boosted by news of sharply higher annual profits at £5m, against £3.3m the previous year.

■ Other Market statistics, including the FT-Actuaries share index, Page 36





FINANCIAL TIMES STOCK INDICES

	Mar 28	Mar 27	Mar 26	Mar 23	Mar 22	Year Ago	1989/90 High	1989/90 Low	Since Compilation High	Since Compilation Low
Government Secs	78.31	78.31	78.72	79.23	79.03	87.78	89.29 (8/2/89)	75.91 (21/3/90)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	85.55	85.28	85.29	85.12	85.86	88.44	89.99 (15/3/89)	85.12 (23/3/90)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1799.9	1786.6	1813.5	1798.1	1779.1	1705.3	2008.6 (5/9/89)	1447.8 (3/1/89)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	274.2	268.8	273.8	284.9	290.9	191.5	378.5 (9/2/90)	154.7 (17/2/89)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2275.0	2266.2	2298.2	2283.9	2258.9	2071.7	2463.7 (5/9/89)	1782.8 (3/1/89)	2463.7 (5/9/89)	986.9 (23/7/84)
Ord. Div. Yield	4.98	4.99	4.89	4.92	4.97	4.52				
Earning Yld %(full)	11.78	11.80	11.61	11.69	11.81	10.93				
P/E Ratio(Net)(*)	10.28	10.27	10.44	10.36	10.26	11.05				
SEAQ Bargains 4.45pm	25,366	30,863	28,930	32,761	31,487	34,166				
Equity Turnover(£m)†	-	702.80	717.13	793.48	932.90	990.40				
Equity Bargains†	-	32,643	33,095	34,281	32,862	38,242				
Shares Traded (ml)†	-	343.5	366.5	436.0	476.2	413.5				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 100 FT-SE 100 31/12/83. ★ Nil 10.29

Ordinary Share Index, Hourly changes — Day's High 1799.0 — Day's Low 1790.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1790.1	1792.9	1791.7	1796.7	1797.2	1795.2	1795.6	1792.4	1791.4

FT-SE, Hourly changes — Day's High 2280.4 — Day's Low 2270.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2271.6	2273.8	2273.0	2280.3	2276.4	2277.4	2277.8	2274.7	2274.0

GILT EDGED ACTIVITY

Indices*	Mar 27	Mar 26
Gilt Edged Bargains	99.4	103.6
5-Day average	104.8	102.8

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the 5-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request. London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

[illegible]

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.45 pm.

NEW HIGHS AND LOWS FOR 1989/90

NEW HIGHS (18). AMERICANS (1) BUILDINGS (1) STORES (2) ELECTRICALS (2) ENGINEERING (1) FOODS (1) HOTELS (2) MOTORS (1) PAPERS (1) PROPERTY (2) TRANSPORT (1).
NEW LOWS (88). BRITISH FUNDS (1) AMERICANS (2) CANADIANS (2) BANKS (4) BREWERS (4) BUILDINGS (9) CHEMICALS (1) STORES (7) ELECTRICALS (3) ENGINEERING (8) FOODS (4) INDUSTRIALS (12) AAF Inve. 7½pc, ASD 8p Cv. Pf., Barlo, Bluebird Toys, Bridport-Gundry, Cookson, Courtney Pope, High-Point, RKF, Ropner "A", Shaw (Arthur), Stormgard, MOTORS (1) PAPERS (3) PROPERTY (9) TEXTILES (3) TRANSPORT (3) TRUSTS (8) OILS (1) MINES (9) THIRD MARKET (4).

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

[illegible]

BRITISH FUNDS—Contd

Index-Linked

[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for July 1989: 115.5 and for February 1990: 120.2.

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

1989/90 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Yld Gr's
36¾	17¼	Campbell Soup 15c	[illegible]	[illegible]	$1.00	–	1.9
28¾	15⅞	Chase Manhattan $12½	[illegible]	[illegible]	$2.38	–	8.3
28¼	14¾	Chem. Banking Corpn	14⅞	[illegible]	$2.72	–	11.0
17½	9¾	Chrysler $6¼	[illegible]	[illegible]	$1.20	–	6.8
[illegible]	[illegible]	Citicorp $1	[illegible]	[illegible]	$1.62	–	[illegible]

[illegible]

CANADIANS

[illegible]

Continued on next page

APPOINTMENTS

Fiat UK managing director

Mr Enzo Miranda *(above)* has been appointed managing director of FIAT UK replacing Mr Bruno Doria who has returned to Italy to a senior post in Fiat Credit International. Mr Miranda was vice president, marketing, of Fiat USA Inc.

■ Mr Colin Kirkwood has been appointed managing director of ABERDEEN UNIVERSITY PRESS, a Maxwell company, in sucession to Mr Colin MacLean who retires on June 30. Mr Kirkwood was publishing director with John Bartholomew and Son.

■ BAIN CLARKSON, part of the Inchcape Group, has appointed Mr David Berlland as deputy chairman. He has been with the group 32 years, and will continue as chairman and managing director of Bain Clarkson's international division.

■ WOOLWICH EQUITABLE BUILDING SOCIETY has appointed Mrs Jackie Riley as head of computer services. She was secretary and assistant general manager corporate planning, and is succeeded by Mr Huw Alderman. The changes are from April 1.

■ DONELON TYSON has appointed Mr Neil Miller as chairman of J.F. Donelon & Co, the group's tunnelling and civil engineering company, in addition to his post as managing director.

■ TIE RACK has appointed Mr Martin Morgan as property and franchising director of Tie Rack Trading, its UK operating subsidiary. He was property director with Automagic Holdings.

■ Mr Keith Redshaw and Mr Michael Griffiths, directors of Land Securities Properties, have been appointed to the board of the holding company LAND SECURITIES. Mr Alf Strange and Mr Neville Johnson, assistant directors, Land Securities Properties, have been appointed to its board. Mr Richard Hodder, a senior surveyor, becomes a director of Ravenside Investments, retail warehouse arm of the group.

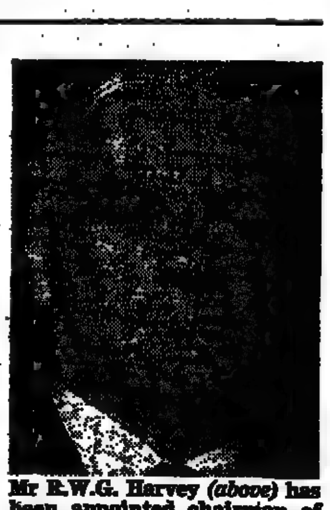
■ Mr Charles Drysdale has been appointed managing director of HARTWELL. The commercial division will be discontinued and the functions of the motor, oil and property divisions will report through the managing director to the main board.

■ Mr John Spence has been appointed managing director, and Mr Robert Woodcock becomes finance director of Antler, a company in the travel and leisure goods division of WASSALL. Mr Arthur Church has been appointed executive chairman of Metal Closures.

■ Mr Bill Hadley, has been appointed managing director of WES ELECTRICAL SERVICES, Aldershot, part of the Thomas Robinson Group. Mr John Podger becomes operations director, and Mr Leslie G. Elby is made commercial director.

■ ALAN PATRICOF ASSOCIATES has promoted Mr Charles Target from assistant director to director.

■ PAYNE PACKAGING, a Norcros subsidiary, has promoted Mr Peter Foster to sales director, strapping products; and Mr Graham Goodwin-King to sales director, tear tapes.



Mr R.W.G. Harvey *(above)* has been appointed chairman of Hambros Bank (Guernsey) and Hambros Bank (Jersey) to succeed Mr D.J. Thomason on his retirement. Mr Harvey continues in his present post as executive director of HAMBROS BANK, London, where he has been in charge of the commercial banking division since 1975.

■ AIRCONTACT, cargo general sales agents, has appointed Mr Richard Wright as divisional director - commercial. He was general manager, AMI/Continental Cargo.

■ COLMAN RSCG GROUP has appointed Mr Anthony Glenn as group financial director, and financial director of the group's operating companies from April 2. He was finance director of Cresta Corporate Services.

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-925-2128

BANKS, HP & LEASING

1989/90 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
*303	216	ANZ SA1	252	-1	44c	1.4	7.9	9.0
196	130	Abbey National 10p	193	+½	5.7	4.3	3.9	7.8
*282	120½	Allied Irish Ord	263	+1	Q68%	3.3	3.1	13.5
£19½	£11½	Algemene Fl.10	£13¼	.....	Q28%	2.0	6.7	7.4
*85	61	Anglo Irish	85	+5	Q18.7%	2.7	5.2	11.6
83	57	Ansbacher (H.) 1p	79	.....	2.5	1.3	4.6	21.0
£72¼	£38¼	Bancaire Cie Fr100	£62¼	-¼	Q12%	-	2.2	-
£23¼	£17	Banco Bilbao Viz	£17	.....	Q17.9%	2.0	4.2	11.8
£33	£24¼	Banco de Santander	£24¼	.....	Q25%	2.4	4.7	8.9
*286	164	Bank Ireland Ir£1	263	+1	Q12.7%	3.2	4.4	9.0
£19½	£17½	Bank Leumi	£19½	.....	-	-	-	-
350	320	Bank Leumi (U.K.)	345	.....	†13.5	-	5.2	-
125	88	Bank Scotland	119	+1	†3.8	3.6	4.3	8.6
111¼	90	Do. 9¼pc Irrd Pf	92	+½	9¼%	-	13.4	-
*67	49	Bank of Wales	52	.....	2.8	1.6	7.2	10.9
*589	404	Barclays £1	589	+4	27.4	3.6	6.2	5.8
31	16	Benchmark 20p	17	.....	1.63	1.0	13.3	9.3
363	285	Brown Shipley £1	313	.....	†10.5	-	4.5	-
455	325	Cater Allen £1	410	.....	23.5	-	7.6	-
259	149	Chancery	155	-4	†8.0	2.8	6.9	6.8
£23¼	£14½	Commerzbk DM10	£22	.....	Q18%	-	3.0	-
*£29	£22½	C'hgn.Hdl. Kr100	£25⅛	.....	Q15%	-	5.5	-
£16¼	886	Dai Ichi Kgk Y50	952xc	-15	Q16%	8.8	0.3	36.4
*£314¼	£156¼	Deutsche Bk DM50	£293¼	-2	Q24%	-	1.5	-
£22¼	£17½	Espirito Santo	£19½	-¼	Q75c	3.3	2.3	13.5
280	182	First Nat. Fin. 10p	222	.....	13.0	2.4	7.8	6.9
134	90	FNFC 6.3pc Cv. Pf	115	+1	6.3%	-	7.3	-
£16½	£12½	Fuji Bank Y50	£12⅝	.....	Q15.6%	4.2	0.2	-
325	230	Gerrard & National	274	.....	18.5	-	9.0	-
254	118	Guinness Mahon 10p	140	.....	♦2.1	-	1.9	-
328	197	Hambros 20p	273	+1	†10.0	-	4.9	-
128	90	Do. 7.5pc Cv Pf	108	-1	7½%	-	9.3	-

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

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MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

For Scottish Asian Pty. see FINANCE, LAND, ETC

[illegible]

Finance, Land, etc

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

MINES—Contd

[illegible]

THIRD MARKET

[illegible]

NOTES

... on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	[illegible]	
Craig & Rose £1	[illegible]	
Finlay Pkg. 5p	37	-1
Holt (Jos) 25p	[illegible]	
Arnotts	[illegible]	
Carrol (P.J.)	170	
Hall (R. & H.)	[illegible]	
Helton Hldgs	[illegible]	-2
IRG	[illegible]	
United Drug	[illegible]	

IRISH

Cap. 8½% Ln. 1991	[illegible]	
9pc Cap Ln. 1996	[illegible]	
Fin. 13% 97/02	[illegible]	

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	39
Amstrad	5½
Astec (BSR)	5½
BAT	83
BOC Grp	45
BTR	36
Barclays	49
Blue Circle	19
Boots	23
Bowaters	38
Brit Aerospace	42
British Steel	9
Brit. Telecom	25
Cadburys	27
Charter Cons	40
Comm Union	40
Courtaulds	24
Eurotunnel	40
FKI	7
FNFC	21
Gen Accident	90
GEC	18
Glaxo	56
Grand Met	45
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	85
Ladbroke	25
Legal & Gen	34
Lex Service	26
Lloyds Bank	22
Lucas Inds	52
Marks & Spencer	17
Midland Bk	27
Nat West Bk	29
P & O Dfd	50
Polly Peck	37
Racal Elect	29
RHM	35
Rank Org Ord	66
Reed Intnl	33
STC	20
Sears	9½
SmKl. Beecham A	46
TI	38
TSB	12
Tesco	17
Thorn EMI	61
Trust Houses	22
T&N	17
Unilever	56
Vickers	18
Wellcome	60

Property	
Brit Land	32
Control Secs	5
Land Securities	44
MEPC	44
Mountleigh	16

Oils	
Aviva Petm	5½
Brit Petroleum	28
Burmah Oil	52
Conroy Petm	12
Gaelic Res	4½
Premier	10
Shell	37
Tuskar Res	10
Ultramar	31

Mines	
Lonrho	22
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	52.49	53.07xd	56.46	-0.02	4.85
Gilts & Fixed Int	6	100.7	100.7xd	106.9	-0.4	10.29
High Inc Equity	6	132.4	135.6	144.3	-0.4	4.40
Worldwide Bond	6	196.9	196.9xd	208.6	-0.8	6.10
Capital Growth						
American Growth	6	194.7	196.6	209.2	+1.5	0.98
Asian Pacific	6	138.2	141.3	150.4	-1.0	0.00
Assets & Earnings	6	153.0	153.0	163.7	-0.2	2.96
Capital Reserve Acc	0	89.47	89.47	89.60	-0.02	6.70
Capital Reserve Inc	0	74.71	74.71xd	74.83	-0.01	8.02
Commodity & Energy	6	104.7	104.7xd	112.0	-1.0	0.75
Dividend & Growth	6	46.54	46.48	49.45	+0.5	4.56
1992 Enterprise	6	60.30	61.57	65.51	-0.22	2.64
Euro Capital Acc	6	101.5	101.5	108.6	-0.9	0.87
Euro Capital Inc	6	97.82	97.82	104.7	-0.8	0.91
General	6	169.5	169.5xd	181.3	-0.4	2.76
International	6	60.67	61.46	65.39	-0.44	0.76
Japan	6	96.29	96.29	103.0	-2.3	0.00
Mountrust	6	88.89	88.89	95.07	-0.54	1.48
UK Growth Acc	6	173.6	173.6	185.7	-0.2	1.53
UK Growth Dist	6	114.8	114.8	122.8	-0.1	2.32
US Emerging Cos	6	57.34	58.98	62.75	-0.15	0.00
Income & Growth	6	294.3	300.8	320.0	-1.1	5.20
Ethical	6	47.09	47.09	50.37	[illegible]	[illegible]

Abtrust Management Ltd (1200)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Amer Inc & Growth	5¼	33.03	33.03	35.26	-0.35	2.27
European	5¼	89.08	89.18xd	95.20	-0.90	0.08
European Income	5¼	86.62	86.62xd	92.43	-0.77	1.63
Exempt	1	739.4	739.4	761.7	-2.30	1.47
Exempt Income	5¼	175.1	175.1	185.6	-0.70	4.84
Exempt American	5¼	377.5	377.5	395.6	-1.30	1.66
Exempt Pacific	5¼	262.9	262.9	274.0	-1.20	0.00
Extra Income	5¼	41.22	41.22xd	44.00	[illegible]	[illegible]
Far East Emerg Econ	5¼	63.83	64.34	68.91	-0.57	0.01
Fund Inv Tst	5	125.5	129.5	138.3	-0.60	1.35
Do Accum	5	196.7	203.1	216.8	-0.90	1.54
Gilt & Fixed Int	5¼	17.26	17.70xd	18.89	-0.04	12.06
Income & Growth	5¼	68.02	68.02	72.61	-0.20	3.94
Intl Income	5¼	64.43	64.43	68.78	-0.10	4.41
Japan	5¼	167.6	167.6	178.8	-1.60	0.00
Pacific	5¼	43.09	43.39	46.47	-0.50	0.01
Secure Income	5	183.5	183.5	195.9	-0.10	5.74
Smaller Companies	5¼	51.25	51.25xd	54.71	-0.04	2.00
Special Situations	5¼	65.26	65.26	69.66	-0.11	0.71

Brown Shipley & Co Ltd—Contd.

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
North American	6	63.90	63.90	68.05	-0.47	0.38
Orient	6	117.4	118.9	126.6	[illegible]	[illegible]
Recovery	6	49.79	49.79	53.03	[illegible]	[illegible]
Smaller Cos Acc	6	256.5	256.5	274.5	[illegible]	—
Smaller Cos Inc	6	158.3	158.3	169.4	[illegible]	[illegible]

Brycourt Unit Tst Mgmt Ltd (1400)F
Macbeth Hse, Portman Sq, W1H 0JH 01-935 6382

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income Growth	1	189.9	189.9	196.5	....	[illegible]

Buckmaster Mangmt Co Ltd (1200)H
The Stock Exchange, London EC2P 2JT 01-588 2868

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Emerging Gwth	5	58.27	58.27	61.42	-1.08	3.42
(Accum Units)	5	60.34	60.34	63.61	-0.08	3.42
Fellowship Tst	5	60.94	62.19	65.98	-0.2	4.28
(Accum Units)	5	63.71	65.01	68.98	-0.2	4.28
General Inc	5	285.8	285.8	302.2	-0.8	1.92
(Accum Units)	5	489.7	489.7	517.9	-1.3	1.92
Income	5	152.9	155.3	164.8	-0.5	4.30
(Accum Units)	5	303.2	307.9	326.7	-0.9	4.30
International	5	111.6	111.6	118.0	-1.9	1.07
(Accum Units)	5	154.2	154.2	163.1	-2.1	1.07
Smaller Co's	5	99.47	99.49	105.2	-0.2	2.23
(Accum Units)	5	110.3	110.3	116.6	-0.3	2.23
Inv Portfolio	2½	53.70	54.48	56.08	-0.15	3.97
(Accum Units)	2½	55.88	57.04	58.80	-0.15	3.97
High Income Port	5	45.05	45.72	47.38	-0.2	6.44

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 01-488 7216

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Short Dated Gilt	1½	54.96	54.96xd	55.79	-0.05	12.96

CCF Foster Braithwaite UT Mngt (1100)F
1 White Hart Yard, London SE1 1NX 01-407 5966

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
CCF Sel High Inc Eq	5¼	46.38	46.38	50.21	-0.18	[illegible]
CCF Sel Intl Gwth	5¼	47.09	47.09	50.57	-0.21	1.44
CCF Sel Inv Tst	5¼	45.91	45.91	50.00	-0.22	2.0
CCF Sel UK Sm Co's	5¼	45.32	45.32	[illegible]	[illegible]	[illegible]

CCL Unit Trusts Ltd (1400)F
74 Shepherds Bush Green, W12 8SQ 01-740 7070

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
UK General Tst	5½	52.60	52.60	[illegible]	[illegible]	[illegible]
Global Tst	5½	45.44	45.95	[illegible]	[illegible]	[illegible]
Recovery Tst	5½	45.56	45.56xd	48.46	[illegible]	[illegible]

CIBC Unit Tst Managers plc (1200)H
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 01-234 6800

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Growth Fd Acc	5	112.9	114.7	121.6	....	[illegible]

CIS Unit Managers Ltd (1000)F
PO Box 105, Manchester M60 0AH 061 837 5060

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
UK Growth	6	99.84	104.4xd	107.9	[illegible]	[illegible]
UK Income	6	100.7	102.4	109.0	[illegible]	[illegible]

CS Fund Managers Limited (1000)H
125 High Holborn, London WC1V 6PY 01-242 1148

	Init chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
CS America	5	63.36	63.36xd	67.40	-0.11	[illegible]
CS International	5	59.79	59.79	63.60	-0.23	[illegible]
CS Japan F	5	131.7	131.7	139.6	-1.5	[illegible]
CS Portfolio Inv	5	69.42	69.42xd	73.85	-0.04	[illegible]

Canada Life Unit Tst Mngrs Ltd (1200)F

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INSURANCES

OTHER UK UNIT TRUSTS

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National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Managed Cautionary	103.0	108.5	-0.5	-
Managed Growth	140.2	147.6	-0.5	-
Managed Opportunity	143.0	150.6	-0.3	-
NFMC Target Financial	100.8	106.2	-0.5	-
Pension Funds				
Managed Cautionary	108.1	113.8	-0.4	-
Managed Growth	144.3	151.9	-0.5	-
Managed Opportunity	145.3	153.0	-0.3	-
NFMC Target Mngd Pens	1503.3	1582.5	-2.4	-

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Fund	221.2	232.9	-0.7	-
Managed Prospect Fund	185.7	195.5	-0.7	-
Pens Managed	288.5	303.7	-0.9	-
Pens UK Equity	334.4	352.0	+0.4	-
Pens Overseas Equity	411.8	433.5	-5.8	-
Pens Property	156.4	164.7	-3.7	-
Pens Fixed Interest	168.2	177.1	-0.8	-
Pens Index Linked	142.5	150.0	+0.3	-
Pens Deposit	192.4	202.6	+0.6	-
Homeplan & P.R.P.				
UK Equity	146.2	153.9	+0.2	-
Overseas Equity	147.4	155.2	-2.1	-
Fixed Interest	115.0	121.1	-0.5	-
Property	130.2	137.1	-3.1	-
Index Linked	129.4	136.3	+0.3	-
Deposit	133.5	140.6	+0.4	-
Managed	145.4	153.1	-0.4	-
With Profits	136.5	143.7	+0.3	-

National Provident Institution
48 Gracechurch St, London EC3P 3HH 01-623 4200

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	339.2	357.1	-0.5	-
UK Equity	431.9	454.7	-0.6	-
Overseas Eq	359.3	378.3	-0.3	-
American	271.0	285.3	+0.7	-
Far East	374.0	393.7	-2.6	-
Property	220.2	231.6		-
Fixed Int	208.3	219.3	-0.5	-
Indexed Gilt	134.9	142.1	-0.1	-
Deposit	161.3	169.8		-
Pension Fund (Accum Units)				
Managed	458.0	482.2	-1.4	-
UK Equity	536.2	564.5	-0.9	-
Overseas Eq	578.8	609.3	-4.4	-
American	356.6	375.4	-0.7	-
Far East	613.0	645.3	-8.4	-
Property	270.6	284.9	-0.2	-
Fixed Int	250.9	264.2	-0.4	-
Indexed Gilt	148.1	155.9	-0.1	-
Deposit	216.9	228.4		-

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
UK Managed Initial		114.6		-
Property Initial		164.3	+0.3	-
Money Initial		79.4		-
Special Market Initial		135.2	+0.3	-
Japan Equity Initial		95.9	-2.1	-
North American Initial		83.8	-0.4	-
Pacific Initial		80.2	-0.3	-
Technology Initial		94.5	-0.7	-
Nat Resources Initial		57.2	-0.8	-
European Initial		106.2	-0.5	-
Residential Prop Init		103.6		-
Swiss Equities Initial		35.1	-0.8	-
Hong Kong Initial		50.2	-0.4	-
UK High Inc Eq Init		67.8		-
Int Fixed Interest Init		48.9	+0.4	-
Int Managed Init		54.9	+0.1	-
HIP Managed Init		113.2	+0.3	-
HIP Managed II Initial		98.8		-
Broker Funds				
High Performance	75.8	79.9		-
Townhill Mngd Fd Acc	52.6	55.4	-1.2	-
YRA Executive Fd	92.5	97.5	-0.1	-
£ Global Growth Acc	130.5	137.6		-
£ High Income Money Acc	111.4	117.7		-
IM Balanced		55.9	-0.1	-
H F Speculator Fd		159.7	+0.3	-
PEP Acorn R		124.5	-0.2	-
PEP Cautionary		87.0	-0.7	-
AAFS Int Man Fund		119.9	-1.9	-
Ashbury-Green Inv Port		101.7	(z)	-
Individual Pension Funds				
UK Equity Acc	221.3	233.5	-0.2	-
UK Fixed Interest Acc	172.4	181.9	+1.1	-
Intl Equities Acc	253.2	267.1	+0.2	-
UK Managed Acc	180.2	190.0		-
Property Acc	209.0	220.5	+0.8	-
Money Acc	137.3	144.9		-
Special Market Acc	272.1	287.1	+0.4	-
Japan Equity Acc	194.0	204.7	-4.4	-
North American Acc	130.8	138.0	-0.9	-
Pacific Acc	197.0	207.9	-1.0	-
Technology Acc	156.2	164.8	-1.5	-
Natural Resources Acc	112.8	119.0	-1.8	-
European Acc	141.8	149.6	-0.7	-
Residential Prop Acc	114.0	120.3		-
Swiss Equities Acc	36.4	38.4	-0.8	-
Hong Kong Acc	52.4	55.3	-0.6	-
UK High Inc Equ Acc	74.9	79.1		-
Int Fixed Interest Acc	52.1	55.0	+0.4	-
Int Managed Acc	60.7	64.0		-
Group Pension Funds				
Equity Acc	819.8	865.2		-
Fixed Interest Acc	526.0	542.3		-
Managed Acc	131.2	133.8	-0.3	-

Royal Heritage Life Assurance Ltd–Contd.

Skandia Life Assurance Co Ltd (a)

Sun Alliance Group

UK Life Assurance Co Ltd

Tattersall Investment Mngt. Ltd

Towry Law & Co

Capital House Fund Mngrs – Contd.

Gartmore Fund Managers International Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

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Ivory & Sime (Luxembourg) SA

Nikko Capital Mngt (Europe) Ltd

Schroder Worldwide Selection Fd Ltd

CMI Insurance Co Ltd

Global Asset Management Corpn—Contd.

Nomura Prudential Fd Pt II

Tudor BVI Futures Ltd

SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

ISLE OF MAN (**)

LUXEMBOURG (**)

DUBLIN (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

Wardley Investment Services Ltd

Wardley S.E. Asia Tst	$12.64	13.41	—	0.82	
Japanese Warrants	$7.55	8.00	—	—	
Asian Warrants	$9.60	10.17	—	—	
European Warrants	$9.47	10.03	—	—	

Wells Fargo U.S. IT Fund

NAV Mar 27		$9.73	—	—

Xiphias International Investment Fd Ltd

Xiphias Int USD	$0.9985	—	—
Xiphias Int ECU	Ecu1.0823	—	—

Yamaichi Dynamic Mngt Co SA

Advanced Tech	$22.44	—	—

Money Market Trust Funds

Charities Aid Fndn Money Mngmt Co Ltd
48 Pembury Road, Tonbridge TN9 2JD 0732 770114

	Gross	Net	Gr Equiv CAR	Int Cr
Cafcash Deposit Fd.	14.97	—	15.83	3-Mth

The Charities Deposit Fund
2 Fore Street, London EC2Y 5AQ 01-588 1815

	Gross	Net	Gr Equiv CAR	Int Cr
Deposit	14.96	—	15.82	3-Mth

Gartmore Money Management Ltd
2-3 White Hart Yard, London SE1R 1NX 01-234 1425

	Gross	Net	Gr Equiv CAR	Int Cr
Call Fund	14.74	11.33	15.82	[illegible]
7-day Fund	14.93	11.68	16.03	[illegible]
Special Fund	14.75	—	14.75	Mth
Dollar	7.00	5.40	7.43	3-Mth

Money Market Bank Accounts

Aitken Hume Bank plc
30 City Road, EC1Y 2AY. 01-638 6070

	Gross	Net	Gr Equiv CAR	Int Cr
Treasury Acc.	13.50	10.56	14.64	Qtr
Mth Int Chq £1,000-4,999	13.50	10.56	14.77	Mth
Mth Int Chq £5,000-49,999	14.00	10.95	15.35	Mth
Mth Int Chq £50,000+	14.50	11.35	15.94	Mth

Allied Trust Bank Ltd
97-101 Cannon St, London, EC4N 5AD 01-629 6880

	Gross	Net	Gr Equiv CAR	Int Cr
OMNA (£2,001+)	14.76	11.57	16.245	Mth
HICA (£2,001+)	13.90	10.88	15.248	Mth

Bank of Ireland High Interest Cheque Acc
36 Queen St, EC4R 1BN. 01-629 7000

	Gross	Net	Gr Equiv CAR	Int Cr
2,000-9,999	13.720	10.720	14.922	Qtr
£10,000+	14.080	11.060	15.293	Qtr

Bank of Scotland
38 Threadneedle St, EC2P 2EH 01 601 6746

	Gross	Net	Gr Equiv CAR	Int Cr
Money Mkt Cheque Acc	13.6	10.44	14.9	Mth

Barclays Capital Advantage Account

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling up as yen stays weak

THERE WAS no basic change on the foreign exchanges yesterday. Sterling was firm and the yen was weak, while the D-Mark improved against the Japanese currency. The dollar lacked fresh factors and showed little reaction to an upward revision in fourth quarter US Gross National Product growth to 1.1 per cent from 0.9 per cent.

Bank of England officials supported the British Government's view on membership of the Exchange Rate Mechanism of the European Monetary System. Mr Robin Leigh-Pemberton, Governor of the UK central bank, told a parliamentary committee that he agreed inflation must come down before sterling can join. In Frankfurt Mr Eddie George, the Bank's Deputy Governor, said at a financial seminar that Britain is committed to membership of the ERM once inflation is bought down and a better balance is restored to the domestic economy. He added: "If we were to join before those conditions are satisfied it could have a destabilising influence."

The pound maintained its recent upward trend, rising 40 points to $1.6300. Sterling also climbed to DM2.7850 from DM2.7800; to Y258.50 from Y255.75; and to FFr9.3575 from FFr9.3325, but was unchanged at SFr2.4675. According to the Bank of England the pound's index rose 0.3 to 87.6.

Intervention by the Bank of Japan failed to prevent the dollar rising. The central bank sold an estimated $400m to $500m at around Y158.40 and Y158.50 in Tokyo, but the US currency continued to advance. After finishing at Y158.65 in the Far East the dollar attacked technical resistance at Y158.80 in Europe, reaching a peak of Y159.15, before closing at Y158.65 in London, against Y157.25 on Tuesday.

Mr Ryutaro Hashimoto, Japanese Finance Minister, underlined concern at the lack of a positive response to the yen's problems in recent talks between Japan and the US. The Group of Seven finance ministers meet in Paris on April 7, and Mr Hashimoto said yesterday that they must reaffirm the will to co-ordinate policies. He added that the yen's value is inconsistent with domestic economic fundamentals and he is very worried about the situation.

At the close in London the dollar had eased to DM1.7080 from DM1.7100; to SFr1.5135 from SFr1.5170; and to FFr5.7400 from FFr5.7525. The dollar's index rose 0.1 to 69.1.

The D-Mark continued to rise against the yen, and advanced in terms of the Italian lira, but eased against the French franc. The West German currency rose to Y92.90 from Y91.95 at the London close amid some market suggestions that it could touch Y100 in the near future. The lira was at the top of the EMS, but the D-Mark rose to L734.95 from L734.50 at the London close. In Paris the franc was fixed at its highest level against the D-Mark since May 1988, and at the London close the German unit had fallen to FFr3.3605 from FFr3.3640.

£ IN NEW YORK

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

Korea(Sth)	1129.45 - 1147.65	698.50 - 704.10
Kuwait	0.47740 - 0.47790	0.29460 - 0.29470
Luxembourg	57.50 - 57.60	35.25 - 35.35
Malaysia	4.4345 - 4.4455	2.7270 - 2.7290
Mexico	4516.30 - 4520.75	2775.00 - 2785.00
N. Zealand	2.8220 - 2.8270	1.7340 - 1.7360
Saudi Ar.	6.0770 - 6.0825	3.7500 - 3.7510
Singapore	3.0680 - 3.0745	1.8840 - 1.8860
S. Af (Cm)	4.3210 - 4.3320	2.6570 - 2.6585
S. Af (Fn)	6.3150 - 6.4395	3.8760 - 3.9525
Taiwan	43.00 - 43.10	26.40 - 26.45
U.A.E.	5.9495 - 5.9565	3.6720 - 3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EMS EUROPEAN CURRENCY UNIT RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

BASE LENDING RATES

MONEY MARKETS

London rates steady

A STEADY performance by sterling kept sentiment favourable on the London money market yesterday. There was a softer tone, but no cut in UK bank base rates is expected in the foreseeable future and wholesale rates are therefore unlikely to move much lower. Three-month interbank eased to 15⅝-15½ per cent from 15 11/16-15¼ and one-year money was unchanged at 15¾-15½ per cent. Markets are resigned to no reduction in base rates until at least the latter part of the year, although there remains a danger of a rise if the pound comes under renewed pressure.

UK clearing bank base lending rate 15 per cent from October 5

Against the probability that base rates will be unchanged for at least a year - the last change was in October - trading in short sterling on Liffe has tended to move into the further delivery months. June overtook March in trading volume long before delivery of the near-dated contract, and the same seems to be happening with September and June. September traded 8,723 lots yesterday, against 9,986 for June. This is a much larger proportion for the far month than would normally be expected such a long time before delivery.

June short sterling opened little changed at 84.78 and touched a peak of 84.79, before closing at 84.76 against 84.77 previously.

The supply of day-to-day credit remained comfortable. The Bank of England forecast a money market shortage of £100m. No bill operations were conducted by the authorities but late assistance of around £10m was provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £282m, with a rise in the note circulation absorbing £120m and bank balances below target £60m. These outweighed Exchequer transactions adding £360m to liquidity.

In Frankfurt call money was unchanged at 7.45 per cent in quiet trading. The Bundesbank council meets today and will be attended by Mr Theo Waigel, West German Finance Minister, when there is expected to be discussions on German monetary union. No change in official interest rates is forecast and banks are not likely to have any problem meeting average reserve requirements this month. Reserve holdings averaged DM60.8bn for the first 26 days of March, against a provisional requirement for the whole month of DM59.0bn.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

JOTTER PAD

CROSSWORD

No.7,201 Set by FRESCA

ACROSS

1 and 21 down Versatile chap, Frankenstein's creation (3,2,4,5)
6 Contemporary composer in the window? (5)
9 Smallest room in award for dimness (5)
10 Scots county inhabited by one male, deserted and distressed (9)
11 Judicial place for royal play? (5,5)
12 One loved to take it easy, say (4)
14 Ladylike, seeing nothing untoward? (7)
15 Dusky inhabitant of Leeds and Manchester (7)
17 Expression of popular feeling Heath put down (7)
19 Exacts retribution from a group of seven without force (7)
20 Rounds of drinks? (4)
22 Willows in disarray, dead inside; one of many similar features of house exterior (10)
25 Wild measures of music by Scot (9)
26 The kind of line that helps make Thatcher hum Brahms? (5)
27 Sudden blow – nothing to relish (5)
28 The flower to hasten spring? (9)

DOWN

1 Programme director imprisons a soldier for sorcery (5)
2 Relax – go on, smile – you may not have heard this before (9)
3 Nifty mini makes new appearance around centre of Crewe; it appeals to men (10)
4 Salt – only for fish (7)
5 Gutsy or badly fermented foodstuffs (7)
6 Vice among the camera crew? (4)
7 Garden pest took shelter beneath a piano (5)
8 Where the spectators stand for subsidiary activities (9)
13 Inferior planet peopled by shady characters (10)
14 Lad's badge insecurely attached to bike? (9)
16 Star quality shown by Mum improvising duet after gin cocktail (9)
18 Treasures papers? (7)
19 A slowish piece from a north Italian poet (7)
21 See 1 ac
23 Lincoln students without name (5)
24 Struggling for a game? (4)

Solution to Puzzle No.7,200

CONNIVE FLIVVER
ANGEL STIMULATE
METHOUGHT DODGE
REACH IMPETUOUS
WILLINGLY DITTO
KETCH CLAPBOARD
FLAGEOLET JUICE
LIAISON ROUSERS

WORLD STOCK MARKETS

AUSTRIA

March 28	Sch	+ or −
Austrian Airlines	4,750	−20
Creditanstalt	6,600	+80
Goesser	7,400	−50
Interunfall	26,300	−300
Jungbunzlauer	18,350	−50
Laenderbank	1,300	+10
OeMV	12,500	+500
Perlmooser	2,150	−50
Reininghaus	2,890	—
Semperit	183	−2
Steyr-Daimler	215	−3
Veitscher Mag	1,359	+5
Verbund	665	+13

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

FRANCE (continued)

GERMANY

GERMANY (continued)

ITALY

ITALY (continued)

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

AUSTRALIA

HONG KONG

MALAYSIA

SINGAPORE

JAPAN

CANADA

TORONTO

4pm prices March 27

MONTREAL

4pm prices March 27

INDICES

NEW YORK DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA TORONTO

**Saturday Mar. 24: Taiwan Weighted Price: 10300.79 Korea Comp Ex. 837.40
‡ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday March 28 1990

2pm prices March 28

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	26	AAR	.46	1.6	16	146	29¾	29⅛	29¼	– ¼
9¾	8½	ACM n	1.01	11.		208	[illegible]	8⅞	9	
11⅞	10½	ACMIn	1.26	11.		295	11	10⅞	11	+ ⅛
9⅞	7⅞	ACM M	n1.01	13.		463	8	7⅞	8	+ ⅛
12⅛	11⅞	ACMMM				236	11⅞	11½	11⅞	
11½	10	ACM Sc	1.26	12.		454	10¾	10⅝	10⅝	– ⅛
9⅞	8⅛	ACMSp	1.01	12.		340	9	8⅞	8⅞	– ⅛
22⅞	13	AL Lab	.16	.7	21	[illegible]	22⅝	22¼	22½	– ¼
4⅞	3⅛	AMCA	.12e	3.7	41	5	3¼	3¼	3¼	
6⅛	3	AM Intl			10	86	3⅛	3	3	– ⅛
23½	16¼	AM In pf	2	12.		6	16⅞	16⅝	16⅞	+ ⅛
107⅛	62½	AMR			9	2085	67⅞	66⅝	66⅞	– ⅛
5⅛	3⅛	ARX				7	[illegible]	3½	3½	
72¾	39	ASA	3a	5.7		381	52⅞	51⅝	52⅛	+ ⅛
70⅞	51⅛	AbtLab	1.68	2.6	17	1836	65¼	64⅞	65⅛	+ ¼
17¼	11⅛	Abitibi g	.50			[illegible]	[illegible]	13½	13½	+ ⅛
13	8⅞	AcmeC	.40	4.1	11	26	9⅞	9⅝	9⅞	
9⅝	7	AcmeE	.32	3.6	11	4	8⅞	8⅞	8⅞	
39½	27⅞	Acusn			22	68	35¼	35	35¼	+ ⅛
16½	12⅞	AdaEx	2.09e	13.		64	15⅝	15½	15½	
15⅞	7⅛	Adobe				13	12¾	12⅝	12⅝	– ⅛
20¼	16⅞	Adob pf	1.84	9.8		16	18¾	18¾	18¾	
10½	6⅞	AMD			22	1541	9⅞	9½	9⅝	– ⅛
36	28¼	AMD pf	3	9.7		12	31⅛	31	31	– ⅛
10⅛	5	Advest	.16	2.7	6	22	5⅞	5⅛	5⅞	
62½	48½	AetnLf	2.76	5.5	9	2251	50⅜	49½	50⅛	+ ½

[illegible]

Continued on Page 45

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NASDAQ NATIONAL MARKET

3pm prices March 28

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMEX COMPOSITE PRICES

1pm prices March 28

Stock	Div.	E	Sls 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FINANCIAL TIMES Thursday March 29 1990

AMERICA

Takeover stories keep Dow stable

Wall Street

AFTER A futures-related surge on Tuesday, equities drifted lower yesterday morning but losses were limited by fresh takeover interest, *writes Janet Bush in New York*. At 1pm, the Dow Jones Industrial Average was quoted 3.16 lower at 2,733.78 by midsession in moderate volume of 79m shares.

On Tuesday, the Dow had closed 29.28 points higher at 2,736.94 with the bulk of that gain coming in the final hour of the session on programme stock index arbitrage trading. The market was relatively resilient given another sharp fall in Tokyo shares on the back of a weak yen.

Market interest was aroused by news that American General, the insurance holding company, had received a $50 a share offer in cash and shares from Torchmark, an insurance and financial services company. American General jumped $6⅛ to $38⅞ while Torchmark added $⅞ to $48⅞. News of the American General bid helped spark a rally in other insurance issues. Aetna Life & Casualty moved $⅞ higher to $50, CIGNA added $⅞ to $50⅞ and General Re gained $⅞ to $82⅞.

Another focus for arbitrageurs was the meeting of the UAL board yesterday which follows discussions with representatives of a union group which has offered roughly $185 a share in cash and securities. UAL is reported to be seeking a bid of at least $200 a share. UAL fell $1⅞ to $160⅞.

The over-the-counter market came under pressure yesterday, partly because of news of the resignation from Fidelity Investments of Mr Peter Lynch, the star manager of its $12bn Magellan Fund, to pursue personal interests. Fears that his resignation may trigger redemptions from the fund provoked some investors into taking profits.

The OTC market was also depressed by a disappointing earnings report from Oracle Systems which reported flat net income in its third quarter ended February 28 compared with 18 cents a share a year earlier. Oracle, a manufacturer of management software, fell $7⅞ to $18. At midsession, the Nasdaq Composite index of over-the-counter stocks was quoted 3.74 points lower at 435.76.

Equities hardly reacted to yesterday's economic news. Fourth quarter GNP was revised upwards slightly to a gain of 1.1 per cent from 0.9 per cent previously reported. The components of the release suggested that consumer demand was stronger in the fourth quarter than had been thought and put some mild pressure on the bond market yesterday.

Among other featured issues, Apple Bancorp surged $7 to $30⅞. Mr Stanley Stahl, a New York real estate investor with a 30.6 per cent stake in the company, launched a $33 a share offer for the remaining shares.

General Development gained $⅞ to $4⅞. The company said that it had received enquiries from several parties interested in making a takeover offer or a major investment in its stock. Avon Products lost $⅞ to $33⅞ after announcing that it was delaying the proposed sale of its Japanese subsidiary pending possible changes in the terms of the sale.

Cineplex Odeon slipped $⅞ to $6⅞ after announcing a loss of 91 cents a share in its fourth quarter. The company also said that it had agreed to sell some film interests in Florida to subsidiaries of the Bank Organisation.

Canada

LISTLESS trading left Toronto stocks steady at the opening yesterday, with little activity in any sector other than golds, which continued to recover. The composite index rose 0.2 to 3,678.7 on volume of 6m shares. Declines led advances by 132 to 110.

A rise in London bullion prices boosted gold shares, with Placer Dome up C$⅛ at C$20⅛, Societe Louvem adding C$⅛ to C$6⅛ and Giant Bay edging up 8 cents to 95 cents.

SOUTH AFRICA

GOLD SHARES firmed in Johannesburg on signs of a bullion price recovery. The JSE Gold index rose 57 to 1,875 and Vaal Reefs was up R6 at R393. De Beers added R3.75 to R84 on forecasts of good sales figures.

ASIA PACIFIC

Region shudders as yen falls again

Tokyo

SENTIMENT turned sour yesterday, as accelerated weakness in the yen triggered a sharp fall in bonds and the equity market, *writes Michiyo Nakamoto in Tokyo*.

The yen's fall unnerved investors and the Nikkei index lost more than 450 points after only 15 minutes of trading.

It moved from a high of 31,799.61 to a low of 31,107.21 before closing with a loss of 562.39 at 31,263.57. Declines outpaced advances by 590 to 331 with 145 unchanged. Turnover fell to 627m shares from the 880m traded on Tuesday. The Topix index of all listed stocks was 32.23 lower at 2,306.85 and, in London, the ISE/Nikkei 50 index fell 2.25 to 1,715.84.

The market had hoped that Japan's big four securities houses would engineer a recovery before the new business year in April, following the Ministry of Finance's decision to relax its guidelines regulating the amount of trading that the houses have been allowed in any single issue.

The market's recovery earlier in the week was partially attributed to the major Japanese brokers. They were reported to be buying on the futures market, to broaden the gap between the futures index and the cash index – and thereby trigger foreign arbitrage buying on the cash market to support price rises there.

But yesterday's fall showed that these steps had a limited effect. Institutional investors, who had been buying to show better figures at the end of the business year, were not expected to be reliable buyers when the new year began in April, said Mr Masami Okuma at UBS Phillips and Drew.

The dollar's strength helped export stocks yesterday, and high-technology stocks in particular. Buying concentrated on issues thought to be likely targets of official intervention.

Among these, Hitachi, top on the volumes list with 46.1m shares, rose Y50 to Y1,600. NEC was also actively traded and climbed Y150 to Y2,150. Fujitsu, the electronics group, increased Y100 to Y1,560.

Sato Kogyo, the medium-sized construction company which is viewed as a beneficiary of increased public spending on infrastructure, was second in volume with 21.1m shares and rose Y30 to Y2,350.

In Osaka, strength in export stocks was countered by weakness in big domestic issues. The OSE average closed with a minimal gain of 6.06 to 33,415.15. Turnover rose to 91.7m shares from 75.9m.

Roundup

TOKYO'S relapse unsettled Pacific Basin markets, where liquidity dwindled towards the end of the quarter.

HONG KONG fell below the important 3,000 barrier on a lack of follow-through buying. The Hang Seng index fell 20.15 to 2,990.70 on turnover of HK$1.46bn after Tuesday's HK$1.67bn. Companies due to report 1989 figures were not expected to lift the market as much as the Jardine Matheson group recently. Jardine Matheson, the most active stock, fell 10 cents to HK$27.90.

SINGAPORE sold property stocks on news that United Industrial Corp, the developers, was contesting a S$103m tax claim on the sale of a subsidiary. Investors were concerned about the tax implications for other groups if United Industrial had to pay up. The Straits Times index fell 1.36 to 1,605.16 on turnover of 82.3m shares after Tuesday's 99.9m.

AUSTRALIA traded quietly in a very narrow range, as investors waited to see who had won the national election and what Tokyo would do next. The All Ordinaries index lost just 0.6 to 1,557.9 and turnover fell to 74m shares valued at A$157m.

NEW ZEALAND saw funds flow out before the March 31 closing date for many investment institutions. The Barclays index rose 7.69 to 1,759.34.

SEOUL fell for the seventh day in a row on continued concerns about the economy.

Lively Brussels brightens cautious month

Turnover levels shrank in most European bourses in February, writes **Simon Greaves**

TOKYO's wobbly stock market and continuing concern over global interest rates last month have tempered the enthusiasm with which European stock markets started the decade.

The Brussels bourse was the only European market to register an improvement in equities turnover during February. Volume was propelled to BFr67.2 – a solid improvement on January's level – by the intense activity surrounding the takeover of Raffinerie Tirlemontoise, the sugar refining and foods group, by Südzucker of West Germany.

Dillon Read, the investment bank, points out that Belgium's monthly turnover was inflated by the *maintien de cours* operation of the Tirlemontoise deal, whereby the acquisition was carried out by share purchases in the market at a controlled price.

This was responsible for the share topping the daily turnover table on seven sessions, including February 19 when 2.45m shares worth more than BFr8bn changed hands – one of the largest daily turnovers of a stock ever seen on the bourse.

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	Nov 1989	Dec 1989	Jan 1990	Feb 1990	US $bn
Belgium	70.0	58.7	82.2	67.2	1.8
France	96.4	131.7	129.1	103.8	18.1
Germany	110.5	157.1	224.4	211.0	125.7
Italy	13,260	13,840	21,228	14,577	11.5
Netherlands	18.1	10.6	18.3	15.4	8.1
Spain	419.0	443.4	497.0	391.1	3.5
Switzerland	16.8	15.4	20.4	20.0	13.4
UK	26.2	27.1	30.7	22.8	38.6

Volumes represent purchases and sales. Swiss and Belgian data estimated. Italian data adjusted to include off-market trading. Some figures may be revised. Source: County NatWest WoodMac.

Mr Luc Van den Brande of Peterbroeck, a leading Brussels broker, says: "Leaving aside Raffinerie Tirlemontoise, the level of activity was not much different from that in an average month last year, in spite of very volatile market movements."

The country's underperformance has been accentuated by the perceived attractions of its neighbours, rather than Belgium's lack of appeal. However, investors selling Belgian shares to increase exposure to West Germany, and the sickness of the domestic bond market, have not helped.

West Germany's record-breaking run after the breaching of the Berlin Wall in November eventually lost some of its steam in February, but activity on the country's eight bourses held up better than in other European markets.

Mr James Cornish of County NatWest WoodMac says: "The index level reached dizzy heights at the beginning of February, by which time it was up 34 per cent since the Wall came down, with the extra foreign interest reflected in the very high volume.

"At the beginning of February, after Chancellor Kohl's announcement of moves towards currency unification, people saw this as having inflationary implications, which then hit the bond market and subsequently brought equities down.

"But there was no mass selling, only an absence of buyers; and in the second half of the month volume picked up again."

The remaining European bourses succumbed to interest rate doom and gloom, failing to find independent reasons to sustain January's exceptional activity levels.

France saw the level of trade see-saw on a dismal downward trend as investors waited for international stability to return and the Perrier contamination scare preoccupied investors. The Netherlands was subdued by a series of profits warnings from leading companies and disappointing results, particularly in the technology sector.

The UK continued to suffer from high global interest rates and nervousness, with the effects being felt most markedly in the property, building and retail sectors.

EUROPE

Bourses retain selective investment policy

THE CONTINENT saw a show of gentle husbandry yesterday, with selective investment policy still to the fore, *writes Our Markets Staff*.

FRANKFURT improved after early losses, the FAZ index easing 3.69 to 811.96 in midsession before a 3.62 rise to 1,528.50 in the DAX at the close. Volume fell from DM8bn to DM7.3bn.

Selective buying favoured a handful of stocks, such as Varta, the battery maker, Linde (fork lifts, aircraft kitchens, environmental engineering) and Nixdorf, the computer group.

Varta, Hanover-based, rose DM14 to DM435 on its proximity to the East German frontier and its status as a potential supplier to eastern Europe; Linde, as prime in engineering as Daimler is in motors, closed DM21 higher at DM979 on eastern promise and on its currently high growth rate; Nixdorf gained DM20.70 to DM336 on further speculation about the price Siemens might pay to gain control.

Among front-line blue chips, strong buying demand for Deutsche Bank before today's group results, and good 1989 earnings from BASF supported improving sentiment as the day progressed.

PARIS eased in thin trading, as the CAC 40 index lost 6.63 to 1,989.83. Volume in Paribas, down FFr22 at FFr672, declined to 212,300 shares after recently hectic trading; its board meeting is due to take place today.

Valeo, the car parts manufacturer, gained FFr11 to FFr579 on Tuesday's 15 per cent rise in profits, and Lafarge Coppée, the cement producer, rose FFr6.10 to FFr538 after its higher-than-expected 16 per cent profits advance. Poliet, in building materials, fell FFr34 to FFr531 on a 5 per cent earnings rise and BSN, the foods group, eased FFr2 to FFr755 after Tuesday's news of a 28 per cent profits gain.

Club Méditerranée lost FFr14 to FFr644; the hotel group said that it was seeking to renew and extend a shareholders' pact, whereby core shareholders offer each other first right of refusal if they wish to sell their stakes.

MILAN saw stocks controlled by Mr Carlo de Benedetti rise following his victory over Mr Silvio Berlusconi for control of Mondadori, Italy's biggest publisher. Cir added L65 to L4,950 and Olivetti rose L87 to L6,597.

The recent buyer of stock in Latina, the insurer, was identified as financier Mr Francesco Micheli who has built up a stake of 8 per cent via his holding company Finarte. Latina rose L130 to L15,830 while Finarte jumped L42 to L7,002.

Benetton, the fashion house, eased L82 to L8,169 after an 11 per cent gain in earnings. News that Montedison had gained effective control of Enimont came too late to affect prices. The Comit index eased 0.43 to 674.58.

AMSTERDAM was lifted by demand for NMB Postbank, which rose Fl 1.9 to Fl 51.40, and for insurers. But Amro and ABN slipped as the market weighed up the implications of their merger. The CBS tendency index rose 0.8 to 116. Biscuit manufacturer Verkade was suspended after closing at Fl 276 on Tuesday before news that United Biscuits of the UK was making a friendly bid for it at Fl 400 a share.

ZURICH heard that the authorities intended to maintain a restrictive monetary policy, fretted over high interest rates and failed to respond to the encouraging corporate news which has been a feature of this year. The Credit Suisse index edged up by 2.9 to 584.9 from 582.0 in moderate trading; rights issues totalling over SFr5bn this year were said to be depressing the market.

BRUSSELS was enlivened by rises in insurance stocks, with Groupe AG advancing BFr[illegible] to BFr11,850 and Royale Belge gaining BFr200 to BFr5,950 on speculation about a co-operation pact and optimism about their earnings. The cash market index rose 10.96 to 6,160.10.

STOCKHOLM was unchanged before a round of wage discussions. Volvo free B shares lost SKr1 to SKr367; the company announced further car production cuts as a result of declining sales. The Affärsvärlden General index was flat at 1,149.2.

MADRID saw a further decline in banks, and the general index slipped 0.35 to 257.76.

Classification changes to FT-Actuaries World Indices

THE THIRD anniversary of the launch of the FT-Actuaries World Index was marked by a major review of the sector classification of the constituents of the US index. As a result, the World Index Policy Committee has determined the following sector changes with effect from April 2 1990. Other world markets will be reviewed, and the results will be published as and when the classification changes are agreed.

Classification changes to existing US constituents: HF Ahmanson to commercial and other banks; Allied Signal to diversified industrial (manufacturing); Amax to non-ferrous metals; American International Group to multiline insurance; Ametek to diversified industrial (manufacturing); AMP to electrical equipment; Autodesk Computers to computer software and services; Bausch & Lomb to health care; Baxter International to health care; AH Belo to publishing - newspapers; Bristol Myers Squibb to health care; Broad Inc. to insurance-life; Centerior Energy to electric utilities and water works; Clark Equipment to machinery - industrial/speciality; Continental Corp. to insurance-property and casualty; Cooper Industries to electrical equipment; Crown Cork & Seal to fabricated metal products; Dayton-Hudson to retail - department store; Echlin Inc to auto parts - after market; Ecolab to divers consumer goods/services; EG&G to instrument /control equipment; Engelhard to chemicals (diversified); FMC Corp to diversified industrial (manufacturing); Fund American (formerly Fireman's Fund) to insurance-property and casualty; Foster-Wheeler to diversified industrial (manufacturing); Golden West Financial to commercial and other banks; Great Western Financial to commercial and other banks; Homestake Mining to precious metals and minerals; Illinois Tool Works to diversified industrial (manufacturing); Ingersoll Rand to machinery (diversified); Interlake to machinery (diversified); IP Timberland to forestry products; Johnson Controls to diversified industrial (manufacturing); Leucadia National to diversifed holding companies; Maxus Energy to oil - international; Medtronic to health care; Melville Corp. to retail - miscellaneous/speciality; Nashua Corp.to office equipment; National Intergroup to wholesale - nondurables; NL Industries to chemicals, fibres, paints, gases; Norton to diversified industrial (manufacturing); Pacific Enterprises to natural gas utilities; Pall Corp. to machinery - industrial/speciality; PNC Financial to commercial and other banks; PPG Industries to chemicals (diversified); JC Penney to retail - general merchandise; Premier Industrial to wholesale - durables; Raychem to electrical equipment; Reebok Intl to footwear; Ryder System to rail and road transport; Southern Company to electric utilities and water works; Super Valu Stores to wholesale - nondurables; Syntex to drugs; TJX to retail - miscellaneous/speciality; Teledyne to diversified industrial (manufacturing); Tyco Laboratories to diversified industrial (manufacturing); USF&G Corp. to insurance-property & casualty; Warner Lambert to health care; Whitman to food processors; Williams Companies to natural gas utilities.

Classification changes to other existing constituents: Degussa to precious metals and minerals; Deutsche Babcock to engineering services; DLW to building materials; Lahmeyer to to electric utilities and water works; Viag to non-ferrous metals (all West Germany).

Deletions: Giant Resources (Australia); Drägerwerk, Hapag Lloyd (West Germany); Hong Leong Finance (Malaysia); Mine Safety, Scripps Howard, Vornado (all US).

Country changes: Malayan Breweries to Singapore; Hong Leong Credit to Malaysia.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY MARCH 27 1990						MONDAY MARCH 26 1990			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989/90 High	1989/90 Low	Year ago (approx)
Australia (83)	136.42	−0.5	124.39	121.63	−0.4	5.68	137.16	125.98	122.05	160.41	128.28	137.80
Austria (19)	264.40	−3.6	241.06	235.41	−3.6	1.13	274.19	251.87	244.22	285.63	92.84	107.90
Belgium (61)	145.88	+0.5	133.01	127.35	+0.1	4.39	146.11	133.29	127.21	160.02	125.58	128.52
Canada (120)	141.24	+0.2	128.78	120.27	+0.2	3.36	140.94	129.47	119.97	154.17	124.47	133.28
Denmark (36)	256.93	+0.5	234.27	227.84	+0.4	1.41	255.60	234.79	226.92	260.82	165.35	167.01
Finland (26)	142.00	+0.9	129.49	120.32	+0.9	2.49	140.70	129.24	119.22	158.16	118.63	145.20
France (125)	150.95	−0.5	137.63	136.21	−0.9	2.80	151.76	139.40	137.41	157.97	112.87	114.75
West Germany (96)	133.36	−0.1	121.60	118.56	−0.4	1.80	133.56	122.66	119.06	137.01	79.56	81.77
Hong Kong (48)	124.24	+0.2	113.28	124.63	+0.2	4.31	124.03	113.94	124.42	140.36	86.41	128.84
Ireland (17)	186.28	+0.5	169.86	168.15	−0.2	2.30	185.43	170.33	168.41	196.57	125.00	140.22
Italy (96)	95.58	+0.4	87.16	89.86	+0.0	2.59	95.22	87.47	89.67	102.11	74.97	80.89
Japan (455)	142.96	+0.3	130.35	142.10	+0.9	0.58	142.47	130.87	140.81	200.11	133.67	184.36
Malaysia (36)	232.18	−0.1	211.68	243.73	−0.2	2.16	232.46	213.54	244.15	245.32	148.35	161.86
Mexico (13)	386.70	+1.4	352.59	1174.94	+1.5	0.44	381.41	350.36	1157.22	408.41	153.32	165.87
Netherland (43)	137.69	−0.4	125.49	120.92	−0.6	4.62	138.17	126.92	121.66	145.98	110.63	115.50
New Zealand (17)	61.81	+2.2	56.36	56.51	+2.2	6.32	60.47	55.54	55.29	88.18	60.44	70.49
Norway (24)	239.27	+0.1	218.17	214.34	−0.2	1.64	239.10	219.63	214.66	245.90	139.92	172.26
Singapore (26)	197.30	+0.1	179.90	171.20	+0.1	1.70	197.12	181.06	171.01	199.38	124.57	147.50
South Africa (60)	191.16	−1.5	174.30	164.84	+1.0	3.58	194.11	178.30	163.19	251.39	115.35	142.86
Spain (43)	139.34	−0.2	127.05	115.36	−0.3	4.63	139.57	128.21	115.76	169.75	133.01	146.96
Sweden (35)	177.06	+0.2	161.44	161.53	−0.1	2.42	176.79	162.40	161.66	206.95	138.45	135.75
Switzerland (62)	88.75	−0.5	80.92	83.47	−1.3	2.36	89.18	81.92	84.53	99.12	67.81	74.06
United Kingdom (306)	149.16	−0.5	136.01	136.01	−1.3	4.49	149.96	137.75	137.75	164.31	133.28	145.90
USA (540)	137.47	+0.3	125.35	137.47	+0.3	3.48	137.03	125.87	137.03	146.29	112.13	118.72
Europe (989)	138.49	−0.3	126.27	124.38	−0.8	3.54	138.95	127.64	125.39	146.66	112.65	116.91
Nordic (121)	189.53	+0.3	172.81	165.25	+0.2	1.91	188.90	173.52	163.59	201.89	137.95	147.86
Pacific Basin (665)	142.03	+0.3	129.50	140.56	+0.9	0.89	141.59	130.06	139.38	194.72	133.29	180.10
Euro−Pacific (1654)	140.95	+0.1	128.52	134.53	+0.3	1.95	140.87	129.41	134.29	174.18	135.46	154.84
North America (660)	137.80	+0.3	125.47	136.37	+0.3	3.48	137.17	126.00	135.94	146.66	112.79	119.49
Europe Ex. UK (683)	130.35	−0.2	118.86	116.93	−0.5	2.73	130.63	119.98	117.57	135.73	98.30	98.94
Pacific Ex. Japan (210)	130.23	−0.1	118.74	119.48	+0.0	4.92	130.37	119.75	119.49	140.05	111.99	128.76
World Ex. US (1847)	141.58	+0.5	129.10	134.69	+0.2	2.01	141.55	130.00	134.42	178.77	136.48	153.97
World Ex. UK (2081)	138.07	+0.2	125.89	135.44	+0.4	2.27	137.78	126.56	134.90	162.00	134.02	139.75
World Ex. So. Af. (2327)	138.72	+0.2	126.49	135.25	+0.2	2.51	138.52	127.24	134.94	161.84	134.71	140.26
World Ex. Japan (1932)	138.42	+0.0	126.21	132.19	−0.1	3.55	138.39	127.12	132.36	146.92	114.51	119.19
The World Index (2387)	139.04	+0.1	126.78	135.48	+0.2	2.52	138.85	127.55	135.13	162.05	135.13	140.29

Latest prices were unavailable for this edition. Canadian and US prices taken at 3.30 (local time).

FINANCIAL TIMES SURVEY

The electricity industry is entering an exciting period of change, particularly in the UK where privatisation looms. Underpinning the changes are environmental issues and the uncertain future of the world economy and energy prices. David Thomas investigates

Battered by green issues

THE ELECTRICITY supply industry is in a state of flux in many parts of the world.

Battered by a renewed wave of environmental pressures, the industry is having to accelerate the introduction of cleaner types of generation. This could entail large investments just when prospects for the world economy – and for the prices of competing fuels – seem at their most uncertain for several years.

Some countries are compounding the uncertainties by reorganising their industries. Nowhere is this more true than in Britain, where the industry is on the point of consummating its most thoroughgoing restructuring in 40 years.

Few countries have ever attempted an industrial reorganisation on the scale of the privatisation of electricity supply in England, Wales and Scotland. The restructuring of telecommunications in the US following the break-up of the Bell system is one of the few examples that could rival it. The sale of tranches in Nippon Telegraph & Telephone is probably the only privatisation which dwarves it in value.

Nineteen new electricity companies are due to rise from the ashes of Britain's nationalised electricity system. Seventeen of these will be sold – Nuclear Electric and Scottish Nuclear will remain in the public sector – in three separate bursts. The sale is expected to begin in November with the flotation of the 12 area supply companies in England and Wales. It is not due to be completed until the early summer of 1991, when the two Scottish electricity companies, Scottish Power and Scottish Hydro-Electric, will be sold.

For much of last year, it looked as though electricity privatisation was destined to remain a pipedream. The British Government was confronted with mounting evidence that the industry would be unsaleable as long as nuclear power stations were included in the privatisation package. The true costs of nuclear power – particularly estimates of the costs of dealing with nuclear waste – had been hidden thanks to wishful thinking at the Central Electricity Generating Board and ineffectual scrutiny by the Department of Energy.

The CEGB's costings of nuclear power – which had been treated as authoritative by successive public inquiries into plans for new nuclear stations – fell apart when subjected to the rigorous examination needed to prepare for privatisation. By the middle of 1989, the CEGB was privately warning the Department of Energy that up to £13bn might be needed in long-term provisions to deal with nuclear waste. A year earlier, in the CEGB's 1987-88 accounts, the figure had been put at £3.2bn.

The appointment of Mr John Wakeham as Energy Secretary in July 1989 did much to restore the momentum of the privatisation process. He took the decision needed to put the show back on the rails by announcing that all the nuclear stations would remain in the public sector. He has been assiduous in forcing through a string of subsidiary decisions needed to create the electricity market forthe post-privatisation industry.

This market comes into existence in England and Wales after March 31, the industry's "vesting day." It is underpinned by an industry structure of byzantine complexity – justified as necessary for the conditions which will allow maximum competition in the electricity market.

Distinct limits have been placed on competition in the initial years of privatisation. The most obvious constraint is the coal contract which National Power and PowerGen, the two new generators in England and Wales, were forced to sign with British Coal. The supply agreement lasts for three years, postponing the need for a politically delicate restructuring of the British coal industry until after the next general election. It obliges the generators to buy the bulk of their supplies at prices above those on the world market, severely limiting their ability to cut costs during their first three years in the private sector.

A series of brakes on competition have been written into the legislation and regulations governing the privatised market. The vast majority of electricity consumers – those with maximum demand of less than 100kW – will have to wait until 1998 before they will be free to receive their electricity from any supplier. Supply restrictions will not be lifted on most small businesses – those with demand of between 100kW and 1MW – until 1994.

The Government defends these and other restrictions as transitional arrangements needed to smooth the introduction of the privatised, competitive market. The burst of activity by the generators and the area supply companies to sign contracts with large industrial users in the run-up to vesting day provides some evidence of the competitive juices which the Government is trying to encourage. So does the emergence of independent generators – some acting in conjunction with existing players.

Professor Stephen Littlechild, the industry's regulator, knows of 20 power station projects being considered by independent generators. Some of these involve new entrants into the English market. This month, for example, CU Power, which operates in Canada, and Hydro Electric of Scotland said they were joining a consortium planning to build a 1,000MW plant at Barking Reach on the Thames in London.

Seventeen of these 20 proposals are for gas-fired power stations, part of a trend in many industrialised countries which could result in gas moving centre stage as a fuel for electricity generation in the 1990s. Prodded by plentiful discoveries of cheap natural gas, many Governments have stopped regarding gas as a premium fuel too valuable to use in power generation.

In 1987, for example, the US amended its Power Plant and Industrial Fuel Use Act to allow electricity utilities to burn natural gas, provided gas-fired stations were built with the capability to convert to coal.

A factor prompting the search for alternative power generation fuels is the continuing question mark over nuclear power. Japan's ambitious nuclear power programme is being hampered by a belated rise in nuclear activism.

Even France, where public opinion is still overwhelmingly behind the switch to nuclear, has heard dissenting noises. An official report – drafted under the direction of Mr Philippe Rouvillois, head of the French atomic energy commission – released earlier this month blames Electricité de France for over-investment in nuclear power capacity and calls for urgent solutions to the unresolved problems of nuclear waste disposal.

Coal as a fuel for power generation has come under intense environmental scrutiny. Coal burning is one of the main causes of carbon dioxide emissions, the main greenhouse gas. Support for swingeing carbon taxes is rising in many industrialised countries and environmentalists are demanding a switch away from coal as a power generating fuel. Several countries, including the US, are pressing ahead with tougher legislation on emissions from power stations. Perhaps the only consolation for the coal and electricity supply industries is that there is little sign of agreement on radical action in the Intergovernmental Panel on Climate Change, the main forum for discussions on global warming.

Nowhere is there a more pressing need to reduce pollution from coal-fired stations than in the newly liberalised eastern European countries. Many western countries are thinking about opportunities in the Eastern bloc's electricity sector, with West German companies particularly active.

Meanwhile, the electricity industry is picking up the pieces of the acid rain controversy. This emerged as one of the main hurdles in the discussions over the generators' capital structures which have preceded the privatisation of the industry in England and Wales. The British Government and the generators are retreating from their commitment to the European Commission to put sulphur-scrubbing flue gas desulphurisation (FGD) equipment on 12,000MW of coal-fired plant in England and Wales at a cost of about £2bn. Definite plans have been announced for FGD plant only for the new 4,000MW Drax station in North Yorkshire.

The Government is worried that privatisation proceeds would be severely reduced if the full FGD commitment were repeated in the prospectuses of National Power and PowerGen. It is arguing that acid rain commitments to the EC can be delivered by a package of measures – a limited FGD programme, imports of low sulphur foreign coal and more gas-fired stations.

PowerGen believes that the British sector of the North Sea can supply enough gas for 12,000MW of gas-fired stations over the next decade. Mr John Baker, National Power's chief executive, expects that gas stations will constitute the overwhelming bulk of new power generation investment in England and Wales in the 1990s.

Drax station in North Yorkshire where definite plans have been announced for flue gas desulphurisation equipment

The Electricity Industry

IN THIS SURVEY

Editorial production: Phillip Halliday

David Thomas looks at the prospects for National Power

A privatised Goliath emerges

IF THERE is to be a Goliath in the privatised electricity industry, then National Power will fill that slot.

National Power is the largest of the three generators which will take the place of the Central Electricity Generating Board. It accounts for more than half the generating capacity in England and Wales. It will be uncomfortably bigger than its smaller rivals – PowerGen, also destined for the private sector, and Nuclear Electric, which will remain in the public sector to run the nuclear power stations.

Size on its own does not necessarily equate with strength. It has become a cliche among observers of the industry to say that PowerGen has shown itself to be swifter of foot in the run-up to privatisation, although there is little hard evidence for this view other than PowerGen's coup in closing a supply contract last year with the new Toyota car factory in Derbyshire.

Mr John Baker, National Power's articulate and combative chief executive, argues that the generator has worked out a coherent strategy for the private sector. Fundamental to this strategy is his view of the nature of the competition which National Power faces.

Mr Baker points out that electricity is likely to have the characteristics of a typical commodity market. This means that there will be limited scope for price competition between National Power and PowerGen, especially since they will be inheriting power stations with broadly similar cost structures.

He makes the parallel with the petrol market, where there is little price differentiation between the products of the various oil companies. But this does not signify a lack of competition. "The competition expresses itself by pressure to be the least cost producer," Mr Baker argues.

National Power has devised a twin-track strategy

■ **Cost cutting:** changing the mix of National Power's fuel burn offers the most promising avenue for cost cutting, since fuel contributes about 70 per cent of its costs.

It is laying plans to cut its dependence on relatively high cost supplies from British Coal. It has launched feasibility studies of expanding coal handling facilities at Milford Haven and on Teesside, which could give it the potential to import 10m tonnes of coal a year.

National Power is in the vanguard of the move to build combined cycle gas turbine (CCGT) power stations, which are seen as more flexible and less risky investments than large coal-fired plants.

It has applied to build CCGT plants at Killingholme in South Humberside and Little Barford on the Bedfordshire-Cambridgeshire border. It is studying the suitability of three sites for CCGT stations: West Burton and Staythorpe in Nottinghamshire and Padiham in Lancashire.

The company envisages a continuing attrition in its workforce, standing at about 17,000 people and accounting for about 10 per cent of costs. But it stresses it has no plans for compulsory redundancies and intends to manage job losses by agreement with unions.

■ **Private sector culture:** Mr Baker, who joined the CEGB in 1979 after the civil service, reels off a string of ways in which National Power is preparing for the more bracing climate of the private sector.

Two executives were brought in from the private sector last year to occupy positions on National Power's board: Mr Brian Birkenhead, finance director, previously with Johnson Matthey, the precious metals group, and Mr Colin Webster, commercial director, previously with BP.

National Power has tried to reduce bureaucracy by cutting out the regional tier of management. Its 38 power station managers report to a board member. Units such as the power stations have been designated as profit centres, until recently they were cost centres.

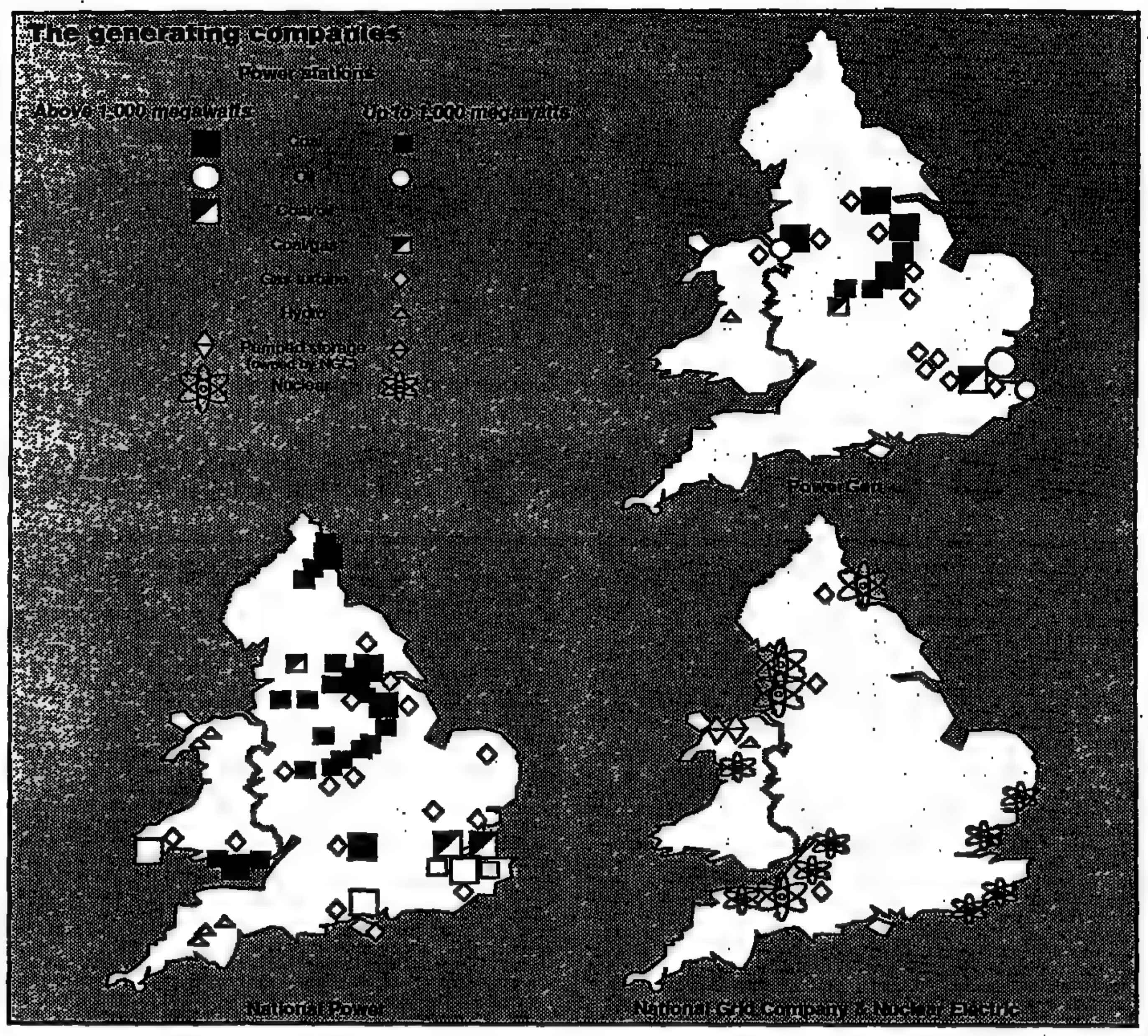
The company has set up a 60-strong sales and marketing team from scratch. Its senior managers have been put onto performance-related pay and plans to extend these incentive payments lower down the scale after flotation.

"It is not necessarily a question of having to bludgeon a reluctant workforce into recognising the benefits of all this," Mr Baker insists.

It will probably be sometime after privatisation before the outside world will be able to judge whether Mr Baker's optimism is justified. His plans to cut fuel costs are constrained by the three-year supply contract which the generators signed with British Coal at the Government's insistence.

Some former CEGB employees believe that it will take more than good intentions to change the bureaucratic, anti-market culture which National Power is inheriting.

Scepticism abounds as to whether a natural centraliser like Mr Baker will find it easy to delegate commercial decisions. If the sceptics are right, National Power could be in for the painful transition into the private sector which companies such as British Telecom have experienced.



The implications of privatisation in the UK

Confusion for equipment makers

PRIVATISATION of electricity supply in the UK has thrown the domestic market for power station equipment into confusion and has accelerated its fragmentation.

Three coal-fired stations, which all the main UK equipment makers were counting on after a dearth of domestic orders and two of the expected three nuclear stations were scrapped during 1988 and 1989.

On top of that, foreign competition arrived. Siemens of West Germany took the first large non-nuclear power station order in Britain for a decade – the 900MW gas turbine-powered station at Killingholme, Humberside.

An important factor has been the growing importance in the market for gas turbine combined cycle and combined heat and power stations. This is work that will go to everyone but could prove an additional fillip to non-British equipment makers and to smaller British suppliers such as John Brown and Hawker Siddeley.

For GEC Alsthom and Northern Engineering Industries, the two main British multi-product equipment makers and Babcock, the boiler and environmental equipment manufacturer, it has been an exceptionally difficult time.

"There is no doubt that the cancellation of the three coal-fired stations and the two nuclear ones was certainly the biggest single setback in the last decade," says Sir Robert Davidson, GEC Alsthom's deputy chairman and joint chief executive.

"It now looks as if there will be no large equipment ordered in Britain before the year 2000, apart from Sizewell B. There is too much factory capacity in Britain at the moment."

Such a view is echoed by Mr Terry Harrison, chairman of NEI, which is now a subsidiary company within Rolls-Royce, the aero-engine maker.

"It is all very sad because the whole debate, the public posturing, and the point scoring have not done anyone or the industry any good at all," Mr Harrison told a meeting of the Federation of British Electrotechnical and Allied Manufacturers' Associations last month.

"Whether you are a consultant, supplier, contractor, generator or distributor it has to be in all our interests to see an end to the present uncertainty as quickly as possible."

It looks as if there will be no large equipment ordered in the UK before the year 2000

Demand for transformers and switchgear remains quite healthy. The main over-capacity is in steam turbines and generators.

It will almost certainly lead to some factory rationalisation in the UK.

The setting up of PowerGen and National Power will accelerate the move towards gas turbines. But even for big gas turbine stations of 660MWs, the turbine units required are relatively small and simply do not need the manufacturing space absorbed by large steam-powered equipment.

The two main British manufacturers have been repositioning themselves within the newly emerging industrial ownership structure in world electrical engineering.

NEI came under the Rolls-Royce umbrella in April last year and, at the end of 1988, GEC's heavy engineering business was merged with Alsthom of France in a 50-50 joint venture between GEC and CGE, Alsthom's former parent.

NEI had deals with Mitsubishi in marketing and technology on the Japanese company's gas turbines and medium-range switch gear. Late last year, it put its gas turbine marketing and engineering for the British market into a joint venture with Asea Brown Boveri.

Sir Robert Davidson: too much factory capacity

The new company, NEI ABB Gas Turbines, whose arrangements will partly succeed those of Mitsubishi has access to turbines on 9MW to 150MW. GEC Alsthom's range is from a few megawatts to 212MW.

John Brown, which is a licensee of General Electric of the US in gas turbines, manufactures units from 20MW to 150MW.

Babcock has remained aloof from company alliances in this industry though it has recently been merged with, then demerged from, FKI, an electrical company that is not in power engineering. There has been some speculation that a tie-up with Siemens might be a long-term possibility.

Nick Garnett

Independent power production

Trying to turn ambitious plans into a reality

THE PRIVATISATION of the Central Electricity Generating Board (CEGB) and its local area boards has had a spectacular impact on plans for independent power production in the UK.

Unhappily, until the process is completed, it is virtually impossible to tell how many of these plans will turn into reality. The UK will have an independent power supply sector by the mid-1990s. Its extent and structure is difficult to gauge.

Under the existing privatisation proposals, consortia can apply to the Secretary of State for permission to build large scale generating plants from around 200MW to over 2000MW as an independent supply to the grid company in direct competition with the two new generators.

Equally, a wide variety of companies have put forward partnership schemes with the local area boards. Outside bodies can take an equity stake in a power station of a similar size range.

So far, the Department of Energy has recieved 17 applications to build power stations of over 100MW, of which nine have been made public, three are before the Secretary of State and one has received permission.

With the exception of the new fluidised bed combustion coal-burning plant at Bilsthorpe, championed by British Coal and the East Midlands Board, all of these new stations will be burning gas.

The total capacity proposed is in the region of 10,000MW-12,000MW.

Of this however, between 4,000MW and 5,800MW are planned by the two big generators, PowerGen and National Power. This is partly an attempt to meet sulphur emissions targets.

Of the rest, only three planned stations amounting to 2,900MW have no direct links with the existing area boards or the two generators.

Significantly, all the new stations either approved by the Secretary of State, such as PowerGen's 1,000MW plant at Killingholme and the three under consideration; PowerGen's 680MW Rye House plant and National Power's 570MW-680MW units at Killingholme and Little Barford, are on former CEGB sites and proposed by the two big generators.

The problem is the uncertainty of demand for independent electricity in the privatised sector. With the two former halves of the CEGB likely to control the initial supplies to the area boards, the price of electricity needed to break into the grid is uncertain.

The structure of the independent power supply sector is difficult to gauge

It follows that the load factor that the new stations will obtain is very uncertain. The proposed stations will all use highly efficient combined cycle gas turbine (CCGT) configurations. These can be built in 120MW-200MW stages and built up to meet demand over several years.

Yet the capital costs are high at around 2MW-2.8MW per £1m spent. Equally, gas supply needs to be organised in advance.

Without a greater degree of certainty about how much electricity will be required and when, it is difficult for the potential generators to guarantee either to take the gas supply, or to get a bankable return on capital.

In addition, the independents are prevented for the first four years from selling direct to consumers needing less than 1MW. This works to the advantage of PowerGen and National Power, busy building their direct sales. The Association of Independent Electricity Producers argues that the two generators have access to far more information on the cost of selling to the grid and thus do not face so much uncertainty.

Two large and entirely independent projects have been proposed. Thames Power intends to build a station at Barking with 1,000MW of capacity and a consortium of ICI and Enron, the US gas company, plans a 1,750MW station at Wilton on Teeside.

ICI's is the most advanced. The chemical company has a load requirement of 800MW at its Wilton plant and this reduces the risk. Enron has great experience in building CCGT plant, while gas supplies have been lined up from the Amoco's North Sea Lomond and Everest fields.

Elsewhere, the area boards have been encouraging joint ventures with independents. Hawker Siddeley has agreements with the East Midlands for £120m, 350MW station at Corby, and with Eastern Electric for a similar station at Peterborough.

Norweb has joined Lakeland Power in a plan for 220MW at Roosecote, supplied by British Gas. Trafalgar House has joined with British Gas in a 200MW scheme at Poole. British Sugar has joined Yorkshire Electric in a 200MW scheme at Brigg. PowerGen will be supplied by Ranger Oil's Anglia field with Ranger involvement at its 300MW South Denes site.

These joint ventures are difficult to arrange. Shell, after two years of discussions with area boards, has pulled out of a 200MW scheme at Shellhaven.

Shell will still build a gas pipeline from Bacton to the Thames estuary in search of power contracts, but the company feels that equity involvement is both risky and unnecessary.

It originally promoted the idea of equity involvement in order to sell gas. Now virtually all of the companies with likely gas reserves are in negotiations with independents or the two main generators.

This may be a stumbling block for new entrants to the power market. While there is plenty of UK sector gas available, CCGTs need guaranteed supply. There are very few fields capable of sustaining a 300MW station on a field depletion basis, lasting 20 or more years.

The new entrants need long term supply contracts and it is only the giants of the North Sea, BP and Shell, that can supply these.

In the medium term, imports of Norwegian gas will be needed although the infrastructure for its supply, the Frigg line, is in place and will be available after 1993.

There are other ways by which independents can get into the power market. Combined heat and power (CHP) utilises smaller units to replace supplies previously bought from the area boards. These units, built for specific purposes, will provide steam for manufacturing processes, or space heating, as well as electricity.

Some of the excess electricity could be sold to either the local area board or private customers. British Gas and a number of oil companies are promoting this route for small engineering companies, hospitals and other large power users.

The principal difficulty is matching steam and power requirements, while in self-protection the area boards may try to increase prices for back-up supplies to make CHP uneconomic. CHP may seriously damage some area board load curves, by removing base-load demand.

Finally, privatisation has produced around 300 small-scale generating schemes, using renewable energy. These are under evaluation with the area boards. These schemes run the whole range of renewable systems including refuge burning, landfill gas, wind and wave power.

The advantage under the new system is that the schemes will not be subject to the fossil fuel levy and have a potential price advantage.

The total capacity likely to be available is between 1,000MW and 2,000MW, and the number of schemes put forward has surprised energy department officials. The deadline for submission to the area boards has been shifted back from October 1989 until late Spring.

While this may be necessary for new schemes, some existing schemes are already supplying power to the area boards at prices 30 per cent lower than that paid to the old CEGB. Those involved feel that the delay gives too much advantage to the area boards.

Chris Cragg, Editor, FT Energy Economist

GENERATING CAPACITY (MW)

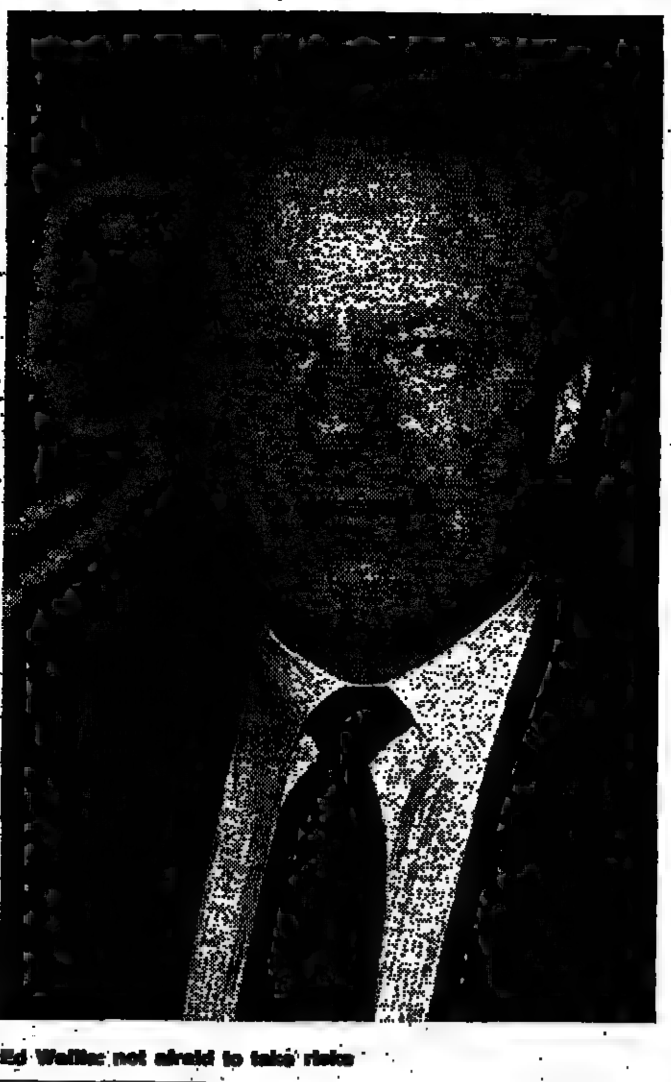
	National Power	PowerGen	Nuclear Electric
Coal*	21,939	13,500	–
Oil	6,039	3,982	–
Gas turbines	1,646	1,177	462#
Hydro	30	53	27
Nuclear	–	–	8,303
TOTAL	29,654	18,712	8,812

*Coal includes stations capable of burning oil or gas
#Nuclear Electric's gas turbines are not available for generation onto the Grid system

Source: James Capel

PowerGen emphasises capability not size, says **David Thomas**

Facing up to a larger rival



Ed Wallis: not afraid to take risks

MR Ed Wallis, chief executive of PowerGen, the smaller of the two generators to be privatised in England and Wales, picks out three achievements of his fledgling company as evidence of its capabilities.

First, PowerGen announced last May plans to build a 1020MW combined-cycle gas turbine (CCGT) power station at Killingholme, South Humberside.

Not only did this put PowerGen in the vanguard of the industry's move towards the environmentally clean, fuel-efficient and flexible CCGT technology, it also involved a range of consequential decisions which at the time were pathbreaking for the British electricity supply industry.

PowerGen teamed up with the UK subsidiary of Conoco to build and operate a 50km pipeline from the shore to Killingholme, the first such venture between a large gas producer and an electricity generator in Britain. It also contracted to buy the entire output of the Pickerill gas field, in the North Sea southern basin, from Atlantic Richfield, Pickerill's operator, and the other companies associated with the field.

"An organisation which didn't exist a year earlier went out and bought a gas field with an NPV (net present value) of £1bn. That demonstrated we were a company which had substance and could take risks," Mr Wallis argues.

Second, PowerGen beat its larger rival, National Power, in December to sign up Toyota's new car plant in Derbyshire as a direct customer, the first such arrangement in the run-up to privatisation. PowerGen had to be confident enough of its own cost structure to quote Toyota aggressive competitive prices for the 10-year deal, due to come into operation next year. "It showed a determination and a speed of decision-making that we could get in there ahead of other people," Mr Wallis says.

Third, the generator unveiled this January plans to import from Venezuela 1m tonnes of a fuel called orimulsion – 70 per cent bitumen and 30 per cent water – which it sees as a potential rival to coal and heavy fuel oil.

The purchase of orimulsion may seem small beer compared to Killingholme and Toyota. But Mr Wallis believes the orimulsion decision, like the Killingholme project, demonstrates PowerGen's ability to plan ahead for what will be one of its central problems in the private sector: the need to broaden its fuel base.

"We have a fuel burn in the present year which is 95 per cent British coal. We believe that no private sector business can put all its eggs in one basket . . . This means our key strategy when it comes to fuel will be to diversify. We've got to achieve a better balance in our fuel burn," Mr Wallis explains.

This better balance will come through four main routes – gas, low sulphur coal imports, oil and orimulsion. They will complement, and hence displace, PowerGen's high sulphur coal purchases from British Coal. PowerGen will not be able to cut its dependence on British Coal substantially until after the end of the three-year supply contract which it and National Power have signed with Britain's coal producer. But this does not worry Mr Wallis, since many of PowerGen's fuel diversification strategies, such as new gas-fired power stations, will take three years to come on stream.

Yet Mr Wallis's careful explanation of PowerGen's core strategy in the private sector raises an obvious query: is it not identical to National Power's, its chief rival? Indeed, Mr Wallis's description of PowerGen's other plans for the private sector reinforces that impression.

PowerGen is putting its leading executives through management training exercises designed to prepare them for the bracing world of the private sector.

It has set up a sales and marketing team from scratch, now 30-strong. It has cut out layers of bureaucracy, made its 21 power stations profit centres and given power station managers much greater control over their operations. It is continuing to "drift down" (Mr Wallis's words) PowerGen's headcount, which stands at about 9,100, in ways that do not involve compulsory redundancies or threaten confrontation with its unions.

National Power has made almost identical moves in its domain. The similarity of the two generators' strategies is hardly surprising. They are being deliberately ushered into the private sector with as similar cost structures and generating bases as possible.

For the moment, PowerGen points to its younger management team and to its determination to be the "UK's lowest cost producer of electricity" as evidence of its ability to succeed against its larger rival. Perhaps the only safe prediction is that competition is likely to take forms that are unforeseen.

THE 12 DISTRIBUTION COMPANIES

On the road to the market

ON Vesting Day, March 31, the 12 area boards of England and Wales will become the 12 distribution companies under the new system. They will go to the market in November.

For most people, the only contact they have with their local electricity board is paying their bills. The boards are simple, anonymous companies providing a service. But after privatisation, many will become the largest quoted companies in their regions, with the chance to diversify into power generation and other areas of possibly unrelated business.

It has been suggested that whereas institutions will buy shares in the generators, the area companies will be a people's share. Now that National Power's nuclear stations have gone to state-owned Nuclear Electric, there is little to choose between National Power and PowerGen. But it would be a mistake to think the same about the area companies. Different supply areas and different load demands have made them different companies.

Eastern Electricity is the biggest and is commonly seen as the jewel in the crown of the distributors. Most of Eastern's demand comes from the domestic and commercial sectors. Its commercial sector looks set to grow as more companies relocate from London, and East Anglia becomes increasingly popular with London commuters.

South Wales Electricity, the smallest of the boards, could not be more different. Dependent on industrial customers for 50 per cent of its demand, and serving an economically depressed region, the board cannot expect significant demand growth in the near future.

The more northern boards – Northern Electric, Yorkshire, Manweb, together with South Wales – rely on industrial customers for up to half of their demand. All are in areas where this demand is unlikely to see significant growth in the near future.

Boards to the south, such as Eastern, South Eastern and Southern Electricity are in expanding areas with increasingly affluent consumers, and dependent for most of their electricity demand on the domestic and commercial sectors.

East Midlands and Midland Board are in the enviable position of a balanced demand across all three sectors, again benefiting from London overspill, both in terms of industry and commuters.

After Vesting Day, the boards' supply areas will be open to competition from the generators. Initially this will be regulated; for the first four years, generators can sign direct contracts for 15 per cent of an area board's load, for sites with a demand of 1MW and above. For the next four years this limit rises to 25 per cent, with the load restriction dropping to 100kW. The market is then open.

Two issues will be vital to the boards' future profitability; the rate of demand growth in their areas and their particular load curves.

Boards which rely heavily on their industrial customers will be vulnerable to losing them to direct contracts with the generators.

Industrial demand is generally 24-hour base load. If the board loses this demand, the load curve it follows may be more erratic. It will require supplying more peak power and therefore a higher proportion of expensive electricity.

Having lost a profitable supply margin, the boards may be forced to hike domestic tariffs, the captive side of the market, to cover their costs.

If, on the other hand, a board has primarily commercial and domestic demand, which is growing, it is less likely to lose this demand to an outside supplier. Whereas Manweb could lose up to half of its baseload, the southern boards do not have a significant amount of sites with a load demand of over 1MW.

Auto-generation will be a problem for boards dependent on industrial customers; for example, ICI's plans to build a 1,500MW plant to supply its site at Wilton means that Northern Electric has lost some 320MW of demand, and its largest customer. The project will provide a potential 1,100MW of power for the market.

What seems a handicap does have its advantages. A high industrial load has a predictable demand pattern, enabling the board to offer load management incentives to its customers. This means the board avoids buying costly peak power. Manweb, in particular, has this fully in mind.

Boards dependent on domestic demand have their own problems. Such demand is more unpredictable, influenced by the weather, and so is not as flexible. These boards may find themselves paying high prices for peak power, or having to sign long-term contracts with generators to avoid this. Some, such as Eastern, are worried about competition from gas to supply the domestic space heating market, which could potentially remove a large part of demand growth.

Under the privatised system, the distribution companies can enter the power generation market.

Several are getting involved in independent power projects; Norweb has signed a contract to take 7 per cent of its power from Lakeland Power, a private company converting the ex-CEGB 220MW Roosecote station. Northern Electric is involved in the Neptune Consortium, which is planning a 1,000MW gas-fired station on Teesside.

A few are more involved in actual construction; Yorkshire Electricity has a plan with British Sugar to build a 200MW plant at its Brigg works. And the East Midlands Board has plans with British Coal to build a 150MW plant at Bilsthorpe. But while some projects involve equity participation, few boards see themselves primarily as plant owners and operators.

Attitudes towards diversification in other business areas are mixed. Most are cautious about such moves, preferring to concentrate on strengthening their core businesses and improving customer service. The more southern boards can sit back and watch their businesses expand. It seems that boards in slower growth areas are being more adventurous.

Yorkshire Electricity has made no secret of its intention to diversify its business. Northern Electric is moving into telecommunications. Norweb, although based in a declining economic area, earned 21 per cent of its 1988-89 profits from the retail side of its business, and aims at further expansion.

Most boards are restructuring to reflect their various business interests, rather than just the regional pattern of their supply areas. Over the next eight years, these supply regions will be less defined, officially disappearing as the market opens up.

Some area boards have had a much higher profile than others. This has depended on the board chairmen; Mr John Harris, of East Midlands, Mr Duncan Ross of Southern Electricity, and Mr James Smith of Eastern have been at the centre of the boards' privatisation negotiations with the Government.

This has been an advantage for these boards in getting to grips with the sometimes day-to-day changes in privatisation arrangements.

Most boards have appointed directors from the electricity industry. The only attempt to get any commercial experience seems to be in accounting, with many employing a finance director from outside the industry. London Electricity is an exception, with both the finance director and the trading director coming from commercial companies, indicating intentions to pursue the retailing side of the business.

Lucy Plaskett, Power in Europe, an FT newsletter

David Thomas looks at the National Grid Company

Unique among exotic creatures

THE National Grid Company is one of the odder creations of the structure which will emerge out of the new electricity supply industry at the end of this week. To understand why, consider some facts about it.

National Grid will be collectively owned by the 12 area distribution and supply companies in England and Wales and could account for about a third of their assets: but its shareholders, the 12 area companies, will not control National Grid's capital expenditure plans. National Grid will not call on its owners for funds: but it will pay them a dividend.

The company is likely to be a unique beast even among the many exotic creatures on the London stock exchange, after it passes into private ownership in the autumn at the time of the sale of the 12 area companies.

Its structure owes more to political decisions than to compelling commercial logic.

The Government was determined to divorce the grid – the 7,000 km long integrated transmission system which controls power flows throughout England and Wales – from the generators.

The cheek-by-jowl coupling of grid and generation under one roof in the Central Electricity Generating Board was widely seen as having biased the nationalised electricity industry towards the interests of the generators, not the customers.

The solution adopted by Ministers was to put the grid under the joint ownership of the area companies.

This was a disappointment to some of the grid's senior executives, who had been hoping for a separate flotation and quotation. They are aware that National Grid's interests are in danger of being overlooked in the stampede to ensure the marketability of the companies heading for a flotation.

National Grid appears to have lost one of its most crucial pre-privatisation arguments – over its rate of return.

Since the grid is and will remain a monopoly, and since National Grid's charges are to be regulated by an RPI-X price control formula, the rate of return with which National Grid will be launched into the private sector is essentially an administrative decision reached by Government.

National Grid argued for a rate of return set at about 8 per cent, but it appears likely to emerge with a lower figure.

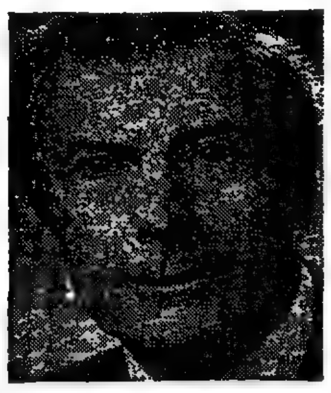
It seems to have had few allies on this issue. One fear was that National Grid might be forced or encouraged into spending excessive amounts on its infrastructure and making excessive charges to justify this.

If that were to happen, some observers argued, then large industrial users and the area companies could be given an undue incentive to establish their own generating capacity, thereby reducing the importance of the national grid – arguably one of the country's main assets.

Much of the time of National Grid's 6,000 employees has been devoted to more nuts and bolts issues in the run up to privatisation, notably preparing the pooling and settlement system which will be at the heart of the new electricity market.

National Grid will be responsible for co-ordinating all power stations with more than 100MW capacity.

Generators must declare to the grid company every day the price at which they are prepared to supply electricity from every one of their power stations for each half hour of the following day.



Bill Keres: merit system

National Grid will choose the cheapest power stations which taken together can meet demand in every half-hour. Generators will be paid for their power the price demanded by the highest priced station in operation at the time – the "system marginal price" – plus a capacity element.

The grid company then adds its charges before billing the suppliers.

The logic of this system does not differ fundamentally from the merit order arrangements used by the CEGB to switch power stations on and off, as Mr Bill Keres, National Grid's chief executive, explains: "The way we've worked for many years is to operate a merit order system. That will continue. The only difference is instead of operating with a cost merit order, we'll be operating with an offer price merit order."

Yet, as Mr Keres acknowledges, the National Grid will have a new responsibility of operating a level playing field allowing all generators to have access to the bulk transmission system in the competitive electricity market.

National Grid will be particularly keen to show that new generators who may emerge to take advantage of the liberalised market are not disadvantaged by the new system.

This is one reason why its shareholders cannot control its investment plans, since the area companies are potential competitors of the independent generators.

The main bias introduced into the grid system is a schedule of tariffs designed to prompt new power stations to be located in regions where electricity demand outstrips supply – notably the south and east of England.

The charges to be levied by National Grid on electricity generators for the use of its infrastructure will vary according to the region in which power stations are located.

Thus, generators will face a capacity charge of £3.12 a kilowatt (kW) and a use charge of 0.0249p a kilowatt-hour (kWh) for stations in the north-east.

By contrast, stations on the south coast will face a capacity charge of 0.81p a kW and a use charge of 0.0065p a kWh.

Similarly, there will be relatively higher charges by National Grid for supplying area companies in regions of high demand such as London.

First, however, National Grid needs to get its new pooling and settlement system up and running, a task of immense complexity.

Everyone at National Grid's headquarters on the south bank of the Thames in central London will be holding their breath when the new system comes into operation at the end of this week.

SCOTTISH POWER and SCOTTISH HYDRO-ELECTRIC

A light at the end of the queue

SCOTLAND'S two electricity companies are last in the privatisation queue. The two companies, to be named Scottish Power and Scottish Hydro-Electric, should come to the stock exchange in May or June 1991.

Coming last is a big, though not unexpected, disappointment for them. They had hoped to lead the queue and join the private sector several months sooner. They argued that the Scottish industry was simpler to float than that of England and Wales and arguably more attractive. This is because unlike in England and Wales, Scotland has vertically integrated electricity companies.

The two boards, the South of Scotland Electricity Board or SSEB (to become Scottish Power) and the North of Scotland Hydro-Electric Board or NSHEB (to become Scottish Hydro-Electric) each produce, transmit and distribute power.

They are not going first, because the Scottish Office apparently does not want to be seen making Scotland a guinea pig for a controversial privatisation, and because the Department of Energy appears to feel that the structure of the Scottish boards could detract from investor understanding of the larger and more complex English industry.

Until a year ago the two boards operated a joint generating agreement with a single merit order for their power stations, effectively controlled by the SSEB. But the Government chose to float them separately, to achieve a degree of competition (if only "by comparison" as it put it) and to add two companies rather than one to the Scottish private sector.

It was decided to place the SSEB's three nuclear plants, one magnox plant and two advanced gas cooled plants, into a separate company, Scottish Nuclear Limited (SNL). This was to have been owned 75 per cent by Scottish Power and 25 per cent by Scottish Hydro-Electric.

Roger Young: outsider

The joint generating agreement came to an end in April last year and the two companies began to operate separately. Swaps of generating capacity were made to give each board a better balance of generating sources. Once the transfers had been made Hydro-Electric began buying and selling power to and from Scottish Power and the Central Electricity Generating Board.

It remained to devise a way of making it possible to float the two boards with SNL in tow. Although the SSEB has a better reputation for running nuclear stations than the CEGB, its nuclear plants had to be removed from the privatisation when the English AGRs were pulled out as the City refused to swallow the cost of allowing for incalculable decommissioning and reprocessing liabilities.

This did not produce large problems for the privatisation in Scotland although half of the two companies' power comes from nuclear plants.

SNL will remain in the public sector with its own (ex-SSEB) management and is negotiating contracts with the two companies to dispose of its output – rather than selling any of it separately.

Scottish Hydro-Electric serves Scotland north of a line joining the Firths of Tay and of Clyde, including Dundee and Aberdeen, as well as the Highlands and Islands. It supplies about a quarter of the electricity in Scotland and had turnover in 1988-89 of £348m, making it the smallest of Britain's electricity companies.

Scottish Power supplies the remaining 75 per cent of the power, serving the central belt of Scotland, with sales of £975m in 1988-89.

Scottish Hydro-Electric embraced the idea of privatisation with more enthusiasm than Scottish Power. Becoming an independent entity has given it extra energy, but has required more internal changes than at Scottish Power. It has acquired an almost completely new management with several figures brought in from outside the industry, including its chief executive for the past year, Mr Roger Young, who came from the manufacturing company Low & Bonar.

It has an almost unique advantage in the UK power industry because of its experience in running the Peterhead combined gas and oil fired plant and constructing a 240MW gas turbine plant alongside it at a cost of £40m. It has become part of the Neptune consortium which is developing a project to build a 1,000MW combined cycle gas turbine plant in the Teesside area, along with Northern Electric (formerly the North Eastern Electricity Board) and two industrial customers, British Steel and BOC, who would take the bulk of the output.

It is taking an equity stake in Thames Power, a company which plans to build a 1,000MW gas fired plant in east London, along with BICC, Taylor Woodrow and Schroder Wagg.

Scottish Power remains under the chairmanship of Mr Miller who points out that a management study of his organisation by Coopers & Lybrand gave it a clean bill of health.

Scottish Power is in one of two groups tendering to build a new power station for the London underground and has been bidding with Bechtel to construct a coal-fired plant at Bilsthorpe in the East Midlands.

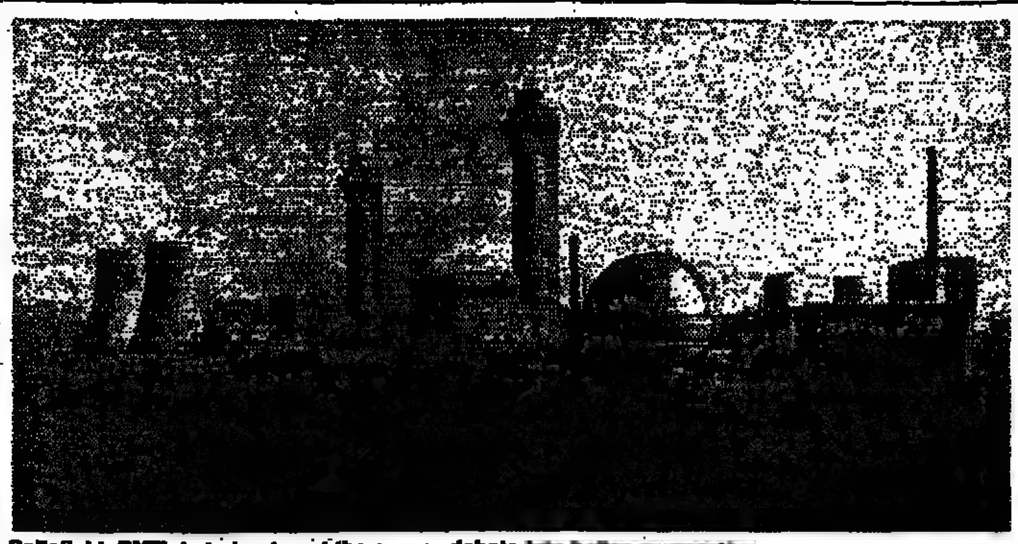
A crucial fact about the Scottish electricity industry is its enormous surplus capacity. The SSEB recently inaugurated the 1,200MW Torness AGR plant, within budget and close to schedule, against a background of static demand.

Both companies argue that they have a good mix of nuclear, oil, coal and hydro-electric generating plant but Scotland has surplus capacity of about 4,000MW compared with demand of some 6,000MW, with oil and coal-fired plants either mothballed or operating below capacity.

While this gives the two companies the chance to make large sales of power south of the border, it is not clear how easy this will be. The inter-connecting power line between Scotland and England has capacity for only about 850MW, though a project is being prepared to bring this up up to an eventual 2,000MW.

Mr Ian Lang, Scottish industry minister, said recently that the Government was determined that Scotland "should have fair access to the market in the south" to exploit the expected shortfall in supply in England and Wales.

James Buxton



Sellafield: BNFL is trying to put the cancer debate into better perspective

NUCLEAR ELECTRICITY INDUSTRY

Considering options

IT HAS been a year of violent perturbations for the British nuclear electricity industry, with some of the shockwaves rocking the industry overseas.

Lord Marshall, its leader throughout the 1980s resigned, saying he should have done so two years before, when the Government embarked on its chosen path to privatising electricity supply and simultaneously restructuring the industry, that was to prove so damaging to nuclear plans.

In Lord Marshall's view, its formula for introducing competition into electricity supply was fatally flawed because it removed the "obligation to supply" from National Power, the company which was to have run most of Britain's nuclear stations.

This statutory obligation guaranteed a market for large generating units, non-nuclear as well as nuclear.

All other nuclear utilities in the world, private as well as public, have an effective "obligation to supply" that gives their bankers the confidence needed to back big, very long-term investment projects of this kind.

The new financial situation militates against big coal plants and such ventures as a tidal barrage, no less than against nuclear reactors.

Instead, Britain is to have two state-owned nuclear generating companies, supplying between them about 20 per cent of the nation's electricity: Nuclear Electric, inheriting the nuclear capacity of the Central Electricity Generating Board, and Scottish Nuclear, running the nuclear stations built by the South of Scotland Electricity Board.

Mr John Collier, chairman of the UK Atomic Energy Authority and the Government's chief nuclear adviser, is chairman-designate of Nuclear Electric and the nation's new nuclear leader.

In most respects, Britain's nuclear electricity programme is back where it was in the late-1970s – reconsidering options for further development.

Mr Collier, a Harwell-trained chemical engineer who has spent his career in reactor technology, has enunciated six priorities for Nuclear Electric in its first few years, as it prepares for a fresh government review of UK reactor construction proposed for 1994.

Although the 1,150MW Sizewell B pressurised water reactor (PWR) project is to go ahead, any replication of the design now seems unlikely. His six priorities, therefore, are:

- Increased nuclear generation – it should be possible to extract at least one-third extra kilowatt-hours from the existing advanced gas-cooled reactors (AGR).
- Increased turnover from nuclear electricity sales.
- Gradual reduction in the Government's planned levy on fossil-fuel generation, which is being set initially at 10.6 per cent. This levy is supposed to balance any difference between coal and nuclear generation cost.
- Increased profits from nuclear electricity.
- Construction and commissioning of Sizewell B to schedule (1994) and budget.
- Reduced uncertainty, and if possible lower costs, in the company's waste management and decommissioning liabilities.

As Mr Collier said: "We have to provide government with the political environment for the government to take the nuclear power programme forward."

Nuclear Electric was barely getting to grips with its problems when the report of Professor Martin Gardner appeared in mid-February, statistically linking 10 cases of childhood leukaemia occurring near the Sellafield spent-fuel reprocessing factory in Cumbria with radiation doses received at work by their fathers.

Prof Gardner has spent five years studying a so-called "cancer cluster" in West Cumbria. His hypothesis shifts attention from an environmental association – often alleged but which he has failed to find – to an occupational link.

If the hypothesis is substantiated, it means radiation exposure of the order of 100 milliSieverts can damage the parental cell line.

Other researchers are testing the Gardner hypothesis. It is not a causal relationship but a "very powerful statistical correlation", according to Dr Dai Rees, head of the Medical Research Council, Prof Gardner's employers.

Prof Gardner is completing several associated studies. Sellafield's owners, British Nuclear Fuels, commissioned two more.

One is an independent academic review of the findings; the other, a study begun in 1988 of cancer clusters found in places with no nuclear associations, as well as those near nuclear installations, and even some near "phantom" plants, in areas selected but never developed.

Sellafield's main reprocessing task for the past two decades has been treating highly radioactive spent fuel from Britain's Magnox reactors.

Prof Gardner has helped BNFL's employees to get his hypothesis, and the very low risk it actually implies, into better perspective: "299 chances out of 300 of NOT getting leukaemia" for the children of fathers exposed to about 100 milliSieverts.

A Manchester surgeon, Prof Miles Irving, points out that in a period during which there were eight deaths from leukaemia in under-25s in West Cumbria, there were 145 deaths in the same age group from "accidents and adverse effects" which he considers were largely preventable.

For BNFL, a highly successful part of the UK nuclear power industry, mainly because of its overseas contracts with Japan and western Europe, the Gardner report is a serious setback to efforts to improve its public image and to take Sellafield out of public debate.

Mr Neville Chamberlain, chief executive, has no doubt about the vital importance of reprocessing, not just for his own company's fortunes.

"I do not foresee nuclear power maintaining its existing position as a world energy source, let alone taking a greater role, without an economically viable and publicly acceptable reprocessing industry," he says.

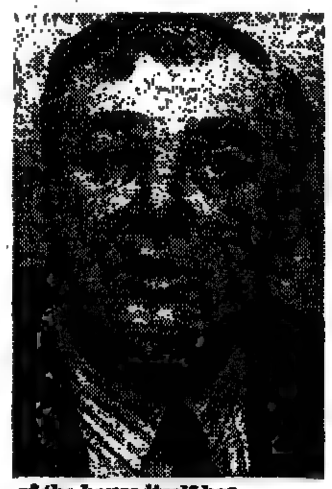
Reprocessing, says Mr Chamberlain, is the only proven and dependable way of managing the back-end of the nuclear fuel cycle.

Uncertainties about technology and costs are diminishing rapidly with progress at the latest French reprocessing plant, UP-3, which came on-stream late last year, and with Sellafield's thermal oxide reprocessing plant (Thorp), due on-stream in 1993.

The new uncertainty relates to the Gardner findings and how they will stand up to scientific, legal and political analysis over the next year or two.

David Fishlock

A chairman's cost analogy



MR JOHN COLLIER, chairman of the UK Atomic Energy Authority and chairman-designate of Nuclear Electric, addressing the Institution of Chemical Engineers earlier this month, used the following analogy to explain the apparent sudden change in the cost of nuclear electricity:

"Let us suppose this house costs £100,000 and we go to a building society for a mortgage over 40 years at 8 per cent interest rate. Now suppose this first, public-sector building society tries to transfer you to a second, private-sector building society which requires the mortgage to be over 20 years at a rate of 15 per cent interest.

"Of course the PRICE to the home-buyer would go up significantly but the COST of the house itself has remained the same.

"So too with nuclear power – the costs of the pressurised water reactors have NOT rocketed dramatically and decommissioning costs have NOT increased".

THE UNIONS

Pay machinery in doubt

THE possibility of an industrial dispute involving 76,000 workers in the electricity supply industry has caused some flutters among industrial relations managers in the last days of public ownership. Unions are balloting on action over an 8.5 per cent offer

The consensus of managers and union leaders in an industry with a long history of stable, centralised pay bargaining is that privatisation is unlikely to herald an era of conflict. Both managers and unions believe there will be a gradual process of change.

The most important question is the future of the long-established national bargaining machinery under which the Electricity Council has bargained on behalf of area boards and the generators with an array of unions in five separate joint councils.

In the water industry, the onset of privatisation led to moves to break up national bargaining, and national bargaining in the private sector has come under pressure. But electricity is different.

No company is likely to pull out of national bargaining until at least 1992, and possibly 1993. It is not inevitable that the machinery will disappear. A two-tier structure of local and national deals may develop.

Two obligations on companies underpin the national machinery. The first is a statutory responsibility to give a year's notice of pulling out. The second is an informal agreement that no company will give notice until the last company is floated.

Since the Scottish boards are likely to be floated in Spring 1991, and the settlement date for the first of the national deals is February 1, the two obligations imply that the 1993 wage round should be conducted at a national level.

Unions hope that the national machinery can be preserved beyond that. The only single-industry union involved, the Engineers and Managers Association, thinks that machinery dating back to 1919 has proved its use in sustaining stable pay arrangements.

Mr John Lyons, EMA general secretary, says the union values the tradition of consensus and consultation in the industry not only over pay, but on training and health and safety. He believes the tradition will be worth sustaining for companies.

One reason why some companies are likely to agree is the industrial muscle of engineers belonging to the EMA and craft workers in other unions. The ability to "make the lights go out" is a potent weapon, and the generators could be more at risk from separate bargaining.

Mr Danny Carrigan, national officer of the EETPU electricians' union, believes that national agreements covering engineers, industrial workers and white collar-staff are "on probation." He thinks that unions must allow local flexibility within national deals.

As part of last year's wage settlement of 9.2 per cent – one of the crucial settlements in the early summer used as a benchmark by other groups such as striking rail workers – a statement of intent on local productivity and staffing deals was reached.

Mr Carrigan says managers have said little use has been made of this yet because of reluctance from local shop stewards. However, he attributes it more to the fact that managers have been distracted by other concerns in the run-up to privatisation.

The future of national agreements perhaps depends most strongly on whether managers will find the flexibilities allowed within national deals enough. One factor in favour of the national deals is their simplicity and lack of complicated bonus arrangements.

Managers tend to the view that companies will increasingly seek local control of bargaining. Against the idea of a two-tier structure, one says that this would mean giving away money nationally before engaging in local talks linking pay to productivity.

Few believe the process will be quick. "Nobody is going to rush into the unknown without thinking carefully about why they are doing it," says one manager. Some will pause before setting up in competition with each other for often scarce skilled workers.

The part of the national agreements most likely to be varied or built on locally are thought to be the dividing line between craft workers and engineers. London Electricity is in talks with unions on moving tasks from engineers to skilled craft workers.

Mr Lyons points to an agreement with PowerGen allowing staffing changes to be negotiated station by station rather than at company or national level. He says this shows the sort of local flexibility unions will accept.

National bargaining is undergoing two separate structural changes. The first is that the small separate negotiating council covering about 3,000 building workers is being integrated with the large National Joint Industrial Council for industrial workers.

The second change is that the National Joint Managerial Council within which salaries for about 1,700 managers were negotiated has been undermined by boards offering individual contracts to their managers and taking them out of the scope of collective bargaining.

Only about 400 managers are estimated to remain within the NJMC, and Mr Lyons resents the way in which boards have in effect circumvented the legislation by removing individuals from the bargaining machinery without giving formal notice as required by legislation.

The undermining of the NJMC seems unlikely to spread to the other national joint councils, but Mr Lyons says it is part of a trend to "macho management" within parts of the industry. He fears that the old consensual tradition is at risk from a cultural change.

Mr Lyons, one of the architects of a joint union approach to privatisation that concentrated on making the best of the change rather than sticking to blanket opposition, is keen to see some of the old joint structures remain in place in spite of privatisation.

He has grounds for at least some optimism. "Whether privatisation leads to fragmentation of bargaining is an open question," he says. "If companies want to pull out of national deals, the only way they will be able to do it is by offering better pay and conditions."

John Gapper, Labour Editor

Malaysia's electricity monopoly sell-off reveals some underlying difficulties

On the slow lane to privatisation

MALAYSIA'S slow progress in privatising its electricity monopoly, the National Electricity Board (NEB), reveals some underlying difficulties.

Deciding to sell it was the easy part. The hard part came in determining the buyers and the price — matters which hardly seem problematic when selling, say, roads or the state lottery syndicate.

Parliamentary consent to sell NEB is required, a simple enough task given the legislative control wielded by the ruling coalition of National Front parties. NEB is a statutory organisation created 40 years ago by law.

NEB unions have limited, or no, political clout to oppose this switch over. So they are not fighting over the intended sale but the future terms of employment and the availability of employee shares.

The proposed legislation will permit a company to succeed the NEB and to take over all of the latter's assets and liabilities. This transfer was initially scheduled to happen on January 1. It was put off to September 1, ostensibly to coincide with the start of NEB's accounting year.

NEB will start with "corporatisation" and follow the route taken in privatising the telecommunications industry. The company is to have two nominal shares owned by the Government, in this case the Finance and Energy ministries. The share capital could be expanded within two years, followed by public quotation.

Unlike previous cases of privatisation, NEB's sale was planned with foreign investors in mind, and their money and technology at heart. Last year, Mr S Samy Vellu, the Energy Minister, said the cabinet had fixed the foreign equity portion in the successor company at 25 per cent.

Three months later, last November, the retraction came. A cabinet spokesman said nothing was decided, not even whether to permit a foreign stake. National interests must prevail.

National interests were not at stake in previous state sales. The indecision comes with the difficult justification for selling state property to outsiders. More so with the NEB, since it was touted as more efficient and more profitable than most other state enterprises. Linked to this is the future role of the successor company in the country's rural development. Both matters prick at the national conscience.

Mr Samy Vellu tried to provide the justification. So that foreign companies are present not solely to cream the profits from the electricity monopoly, he said they must meet three conditions to have any stake. They must pay a premium on the shares, provide the finest technological and management package, and offer an acceptable 10 to 20-year-long term development plan.

Britain's PowerGen has dropped its initial interest in an NEB stake. Left in the bidding are National Power of the UK and the South of Scotland Electricity Board, which will become Scottish Power.

Negotiations with these companies have produced nothing publicly. Mr Samy Vellu went to the UK last November. Then British delegations from Babcock Energy, Balfour Beatty and Northern Engineering Industries arrived in Malaysia. Balfour Beatty, the energy construction group, may consider an equity partnership in NEB.

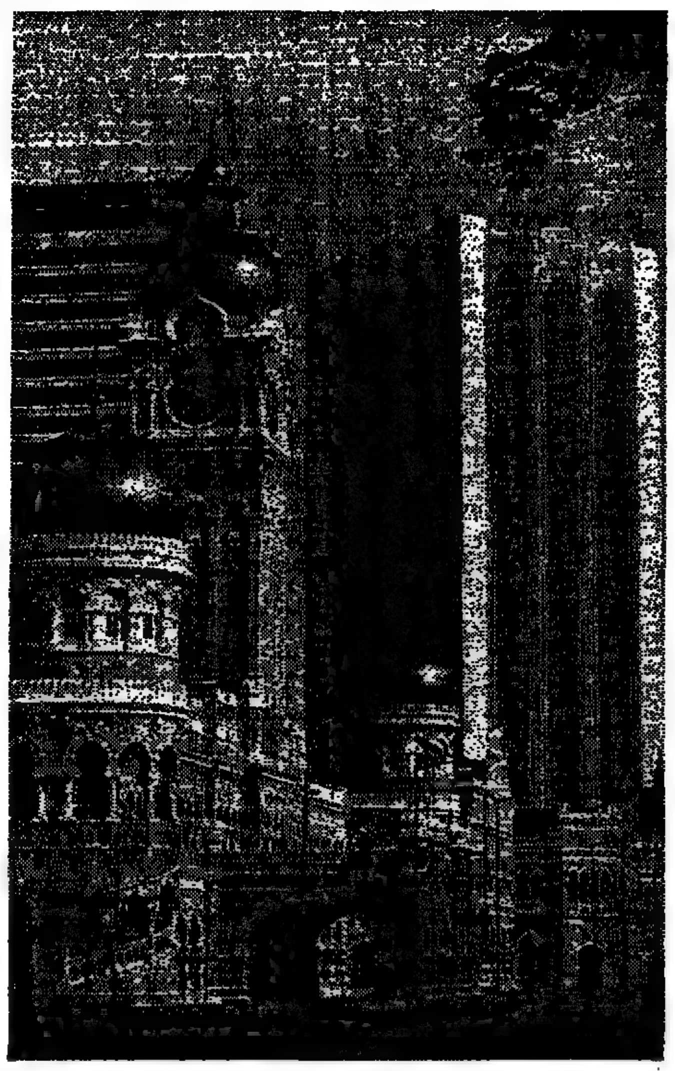
One difficulty with NEB's sale is fixing its worth.

NEB's asset value, the Government says, exceeds 10bn ringgits, and loans amount to 4bn ringgits, 65 per cent of it in yen. The board says the net worth is 5bn ringgits, and liabilities stand at 6bn ringgits. Assets, at 10bn ringgits, is split 60 per cent in generation, 22 per cent distribution, and 18 per cent transmission.

The Government thinks 7bn ringgits ($2.7bn) will buy NEB. This is unprecedently high in Malaysia's privatisation programme, but it partly tells why the Government is courting foreign investments to supplement limited local capital.

For the year to August, NEB reported a 24 per cent operating margin, or 650m ringgits on a turnover of 2.7bn ringgits. Profits forecast for the current year are the same, with a capital and operating expenditures at 2.1bn ringgits and 1.6bn ringgits respectively.

NEB's financial standing has still to be verified independently, something Malaysia has agreed to. A 10-member Malaysian and British consortium of accountants and engineering consultants is working on it. Members of the team include Price Waterhouse, Tenaga Ewbank Preece, Ernst & Whinney, Schroders, Morgan Grenfell and Malaysian International Consultants (Mincosult), the local engineering design group that has been involved in much of NEB's expansion work in recent years.



Petronas HQ (behind the former Colonial State Secretariat in Kuala Lumpur): the oil group may provide cheap gas

NEB's record of profitability and asset size is complicated by its rural network, which looses money. Should the new company bear all future costs of rural electrification? Until August 1988, the rural operations were fully subsidised. Since then the board met half the costs of rural electrification — a measure that may have hurt NEB's target of a 7 per cent annual return, net of operating cost and depreciation, on capital investment.

Under the new company, though, subsidies may appear in other forms — such as tax relief and cheap gas from Petronas, the national oil company.

NEB is in the throes of unprecedented growth. Generating capacity doubled to 5,000MW in the past five years. A year ago, power demand was thought to be growing at 6 per cent yearly. However, it is now growing at 13 per cent and the existing installed capacity will be inadequate by June next year.

New investments required for the next five years will amount to 10bn ringgits. Annual operating costs will rise even more, by 38 per cent to 2.9bn ringgits a year until 1995, according to the NEB's latest projections.

Higher costs are not due entirely to capacity growth but also to refurbishing equipment. Many of NEB's 15 generating stations are small (under 100MW) and old.

Oil accounts for 41 per cent of heating fuel consumption. NEB wants this portion cut to 1 per cent. Many stations must now therefore be re-engineered for multi-fuel use.

Gas usage has risen in the past decade from under 1 per cent share of the fuel mix to 25 per cent. In two years, it is expected to rise to a 64 per cent share with coal rising from 9 to 20 per cent.

Hydro power has gained currency in NEB's plans. In the pipeline are stations at Ulu Jerai, Pahang state; Negri in Kelantan and Hulu Trengganu, Trengganu. They will provide 1,160MW compared with the 1,240MW in hydro power capacity in 1989.

NEB is able to do financially better than most other state enterprises because of its tariff rates. They are higher than most neighbouring countries such as Singapore, Thailand, and Taiwan.

There was an early indication that privatisation may result in lower rates. But that prospect seemed to have diminished given the difficulties with the sale.

The NEB seems to think that its monopoly may be chipped away by substitutes, such as gas. A 750km trans-peninsular gas line due for completion in 1992 will enable homes to have gas, and permit big users, such as oil refineries, to have their own power stations. However, the gas distribution infrastructure is virtually non-existent.

The protracted nature of the negotiations suggests that companies, not merely the Government, are driving a hard bargain.

Independent auditing resolves financial questions, not matters of national interests. Politicians decide on the latter, and that has got entangled with privatisation's goals.

Lim Siong Hoon

Ownership structures are changing fast

A jigsaw of large pieces

THE ASTONISHING speed at which the ownership structure of the world's heavy electrical engineering sector has been broken apart and reformed into a wildly different jigsaw has been one of the greatest tales of industrial reshaping during the past three years.

Car making and electronics are going through a similar process but power engineering has been the trail blazer.

In a welter of acquisitions and alliances, two new big groupings have been formed in Europe; Asea Brown Boveri (ABB) and GEC Alsthom.

Two equipment makers in North America, Westinghouse and Combustion Engineering, have been sucked in to this restructuring.

The big Japanese electrical engineering groups, Toshiba, Mitsubishi and Hitachi have kept largely aloof from this.

In a welter of acquisitions, two new big groupings have formed in Europe

But they are showing signs of informal co-operation between themselves on a who-does-what basis.

Of the large western suppliers of electricity generation, transmission and distribution equipment only General Electric of the US and Siemens of West Germany do not have a big cross-product partner.

Within the past few months the hunger for gobbling up anything that comes on the market has switched to eastern Europe.

ABB is acquiring a majority holding in Zamech, Poland's biggest manufacturer of steam turbines and other power equipment.

It is negotiating to form a joint venture between its ABB Kraftwerke subsidiary in West Germany and VEB Bergmann-Borsig, the state-owned power plant manufacturer in East Berlin. Both ABB and Siemens have expressed an interest in buying or setting up a joint business with parts of Skoda's power engineering operations in Czechoslovakia.

One main question is whether some of the newly emerged groupings can work in the way they should work and whether they can find the right senior managers to run those businesses.

This question is most pertinently directed at ABB. It was formed in 1987 from a merger of Brown Bovari of Switzerland with Asea of Sweden and is the world's largest electrical engineering group with, on last year's figures, 215,000 employees, 1,100 companies and sales of $25bn. ABB says it can run this empire because it is so decentralised.

The reasons for this large structural reshuffle centred on industrial overcapacity following a slide in worldwide demand.

The world export market for power equipment in 1981 involved the ordering of 37,000MW of steam turbines. This slumped to 7,600MW by 1985, climbing slowly to 11,000MW by 1988.

This pressure was coupled with rapidly rising costs of development and, in the case of Europe, the psychological effects of the approach of 1992. An additional and very important factor was the growing importance of gas turbine technology. This accelerated the need for companies to position themselves better with that technology — usually by finding a partner with complementary products or technology or the financial muscle to develop it.

The world has seven or so large power engineering groupings. In Europe, these are ABB, GEC Alsthom and Siemens, together with GE in the US and the three Japanese companies. Westinghouse in the US is staying in nuclear technology but appears to be easing out of conventional electricity equipment. Meanwhile, the "losers" have included a clutch of European companies in Italy, Belgium and Spain, which have lost their independence.

In the UK, apart from the formation of GEC Alsthom, Northern Engineering Industries, a full line equipment maker, has been acquired by Rolls-Royce, the aero engine company. NEI subsequently set up a joint marketing and engineering operation with ABB for gas turbine-powered stations in the UK market.

The corporate spark for all these changes was the formation of ABB in 1987. Since then, ABB has gone on an apparently unstoppable acquisition binge.

It has bought AEG's steam turbine business in West Germany, set up a joint venture with Siemens in high temperature nuclear reactors and bought the electrical engineering division of Franco Tosi in Italy. It has set up a series of joint venture companies with Finmeccanica/Ansaldo in Italy and linked up with Rolls-Royce/NEI in gas turbines. Its activities in Europe have just been extended by its purchase of the CCC electrical engineering group in Spain and deals in eastern Europe.

In North America ABB has bought Westinghouse's electrical transmission and distribution equipment businesses and acquired Combustion Engineering (C-E) for $1.6bn.

GEC has put its heavy electrical engineering business into a 50-50 joint venture with Alsthom of France, forming a business with sales of £5bn. This group includes EVT, a West German boiler company and part of ACEC in Belgium.

Siemens' KWU power generating equipment business has pooled its marketing, sales and development of PWR reactors with Framatome of France. This company, Nuclear Power International (NPI), is in detailed negotiations with Babcock & Wilcox in the US.

GE of the US has long-standing licensing arrangements in gas turbines and in 1988 announced a joint marketing deal in switchgear with Japan's Fuji Electric. GEC-Alsthom, which had once been on the point of acquiring C-E as its North American arm, appears keen to develop further relations with GE beyond its co-operation in gas turbines.

Hunger for gobbling up anything on the market has switched to eastern Europe

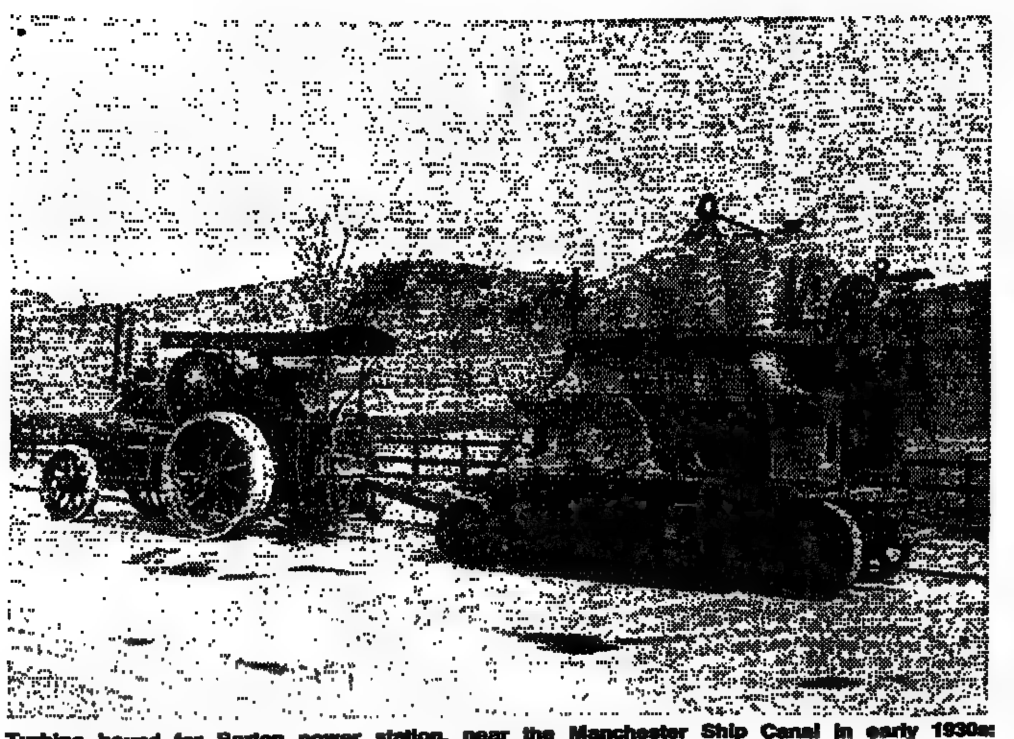
All this, of course, raises the question of how these large new groupings are going to be managed. One manager outside these big groups described them as "amorphous blocs."

The issue of managing has focused on ABB. There were even some serious questions among ABB's 14-man board as to whether ABB could absorb the C-E acquisition after so many in Europe. There have been suggestions that the C-E acquisition might affect its purchase of the Westinghouse businesses.

GEC-Alsthom, which has its own cultural and operating differences between the UK and France to overcome, questioned whether ABB could find the right number of quality managers to run its businesses. Mr Percy Barnevik, ABB's chief executive, expresses no doubts, saying ABB's decentralised structure is ideal for absorbing so much.

The central issue still comes down to which groups win the orders and which can build to time and cost and still make an adequate profit.

Nick Garnett



Turbine bound for Barton power station, near the Manchester Ship Canal in early 1930s: efficiency schemes in the US offer rebates for old, inefficient appliances

Electricity suppliers are under increasing pressure to improve energy efficiency

Missed chances on the demand side

AS ENVIRONMENTAL concerns close in, the electricity supply industry is under increasing pressure to improve its energy efficiency, as an important way to reduce power station emissions of pollutants, such as CO, SO and NOx.

On the global warming issue, in particular, while the UK remains heavily indebted to fossil fuels for its power supplies and the Government has abandoned any early attempt to expand alternatives such as nuclear power and renewables, energy efficiency is widely seen as the most effective way to curb emissions of carbon dioxide, while still allowing scope for economic growth.

Some of this can be done on the supply side, using combustion technologies that raise thermal efficiency. In a privatised industry, generators will have some incentive to pursue these, to cut input costs.

What is less clear is why, in the context of UK privatisation any electricity supply company will want to improve efficiency at the point of consumption, since their rewards will be closely tied to the amount electricity they sell.

In parts of Europe and the US, the electricity supply industries have been investing considerable sums on efforts to reduce electricity demand. During parliamentary debate on the 1989 Electricity Act, the Government deleted a clause inserted by the House of Lords, which would have allowed the new distribution companies to be directed to improve demand management performance.

In the act and the associated operating licences, the onus remains on the consumer to decide whether to invest in energy saving measures. This approach sets Britain apart from a growing number of initiatives in western Europe and US, where consumers and utilities are offered financial incentives and face statutory obligations to reduce waste.

There are two main strategies: least cost planning and energy labelling. Least cost planning involves comparison by utilities of the cost effectiveness of supply and demand side investment options, usually under obligation from the state regulator, the Public Service Commission (PSC).

A utility is required to show that it has explored the opportunities for reducing electricity demand by helping customers to adopt energy efficient equipment, thereby reducing or postponing the need to invest in new generating plant.

The costs are compared on a per kilowatt hour (kWh) basis. By no means all countries have introduced this, though the UK Association for the Conservation of Energy (ACE) and the US Electric Power Research Institute both claim that it occurs in about 45 states.

The US National Association of Regulatory Utility Commissioners (NARUC), sceptical about the seriousness of some initiatives, says some 15 states are pursuing least cost planning wholeheartedly. The results vary.

In 1987, the Wisconsin PSC offered Wisconsin Electric Power Company (WEPCO), a private electric utility, with just under 5,000MW capacity, an extra 1 per cent return, if it could cut demand by 125MW in two years.

The company has spent some $80m on the programme. To date, 175MW has been eliminated from demand and the PSC has offered a further 1 per cent return if a second 125MW cut can be achieved by 1991.

Among other measures, WEPCO's Smart Money programme offers consumers rebates for purchasing energy efficient appliances, varying from $10 to $85 for efficient lighting to $650 for water heaters and savings bonds up to $100 if they will turn in old, inefficient air conditioners, refrigerators and freezers.

By January 1990, some 147,000 inefficient appliances had been turned in. The Portland, Oregon-based, publicly-owned Bonneville Power Administration (BPA), a predominantly hydro generator supplying the Pacific North West, with a peak load of about 10,000MW, has spent some $750m since 1981 on "developing its conservation resource" and will pass $1bn by 1992.

Estimated demand savings are about 300MW, with another 200MW expected by 1997 and 600MW to 1,000MW potential seen in the next 20 years. The commercial return, according to Mr John Elizalde, Director of Resource Management, has been entirely in avoiding new generating capital costs. These were costed at about 4 cents per kWh, where the savings programme has worked out at about 3 cents per kWh.

An important strategy has been to win political backing for model consumer standards for residential buildings, with BPA paying most of the incremental costs.

These were adopted in Washington state in February this year and are expected soon in Oregon. On the other hand, the Nevada PSC has found the companies reluctant to pursue conservation measures.

Commissioner Mr Michael Pitlock says that the PSC is considering options for increasing utilities' commercial incentives. Mr Pitlock and Mr Mike Foley from NARUC speak of the need to "decouple sales from profits."

Nevada does not offer utilities increased rates of return for conservation achievements, as in Wisconsin. Utility gains must come from postponed capital projects and Mr Pitlock says he is "not very encouraged by the results to date".

Significant achievements have been made, particularly on commercial lighting. In Europe, least cost planning is taking hold. At the European Commission, DG XVII (Energy) and DG XI (Environment) have been promoting the idea.

DG XVII's Energy and Environment document, released at the end of 1989, includes it at the top of a list of measures to be considered in a forthcoming "special Action Programme for vigorous energy efficiency (SAVE)."

Mr L J Brinkhorst, director general of DG XI, in a speech on February 7, suggested mandatory least cost planning, as well as mandatory efficiency standards for appliances and other equipment, as priorities for action at community level, in the battle to curb CO emissions.

DG XVII is sponsoring a series of experiments with least cost planning, at Iberduero, in northern Spain, and in Schleswig Holstein, in northern Germany.

In Sweden, the state power board, Vattenfall, initiated a project called Uppdrag 2000 in 1986, to investigate the potential for electricity conservation.

Some SKr400m has been spent. Leaving aside electricity-intensive industry, the study has found technical and economic savings of 12-19 terawatt hours (TWh) a year, out of a 1988 total of 72TWh. Of those, some 5TWh-7TWh are thought to be achievable by 2000.

Mr Morgan Andersson, executive project manager for Uppdrag 2000, reports that much of the savings in Sweden, where efficiency standards are high, come from adjustment of equipment.

A programme of least cost planning, to implement these potential savings, was started at the end of last year. In the Netherlands, both the Economic Affairs and Environment Ministries are developing plans for energy efficiency and CO reductions.

The Environment Ministry is pressing for CO standards to be added to existing environmental permits, under a 1989 National Environmental Plan, which requires commercial equipment purchases to use best available technologies for SO and NOx emissions, with penalties, which include plant closure, for non-compliance.

The problem in Britain will be that the distribution companies, which have most of the customers, will gain little in avoided costs by cutting demand; they will simply lose revenue.

Unless the regulatory framework is altered, demand management will be a matter of community responsibility alone. On the other hand, if demand cuts are required by environmental authorities, shareholders may see a sharp dip in company returns.

Chris Clarke, deputy editor, FT Energy Economist

Environmentalists have often turned on electricity supply. **Clive Cookson** reports

The case against carbon dioxide

THE ROUND domes of a nuclear power station and the smoking chimneys of a coal-fired plant are two of the most powerful symbols of modern industrial pollution. The electricity supply industry has long been a favourite target of environmental campaigners.

During the 1980s the main environmental concerns were radioactive wastes from nuclear reactors and acid rain caused by sulphur and nitrogen emissions from coal-fired plants.

Now, carbon dioxide produced by burning fossil fuels is widely seen as the most serious long-term pollutant because it is the main contributor to global warming through the greenhouse effect.

The scope for switching from fossil fuels to nuclear and renewable energy sources, which do not emit carbon dioxide, is limited – at least for the next 20 years. Technology that would make it possible to burn fossil fuels without contributing to the greenhouse effect, either by removing the carbon in advance and burning the remaining hydrogen or by scrubbing carbon dioxide from flue gases after combustion, could not be applied widely for several decades.

Energy efficiency will be the main weapon against the greenhouse effect. The electricity supply industry is responsible for 37 per cent of UK carbon dioxide emissions, a level that could be reduced significantly by increasing power station efficiency.

The best conventional coal-fired power stations convert only 37 per cent of the energy in the fuel to electricity. But advanced coal-burning technology could raise the proportion well above 40 per cent – and reduce the sulphur and nitrogen emissions that contribute to acid rain.

One approach is pressurised fluidised bed combustion (PFBC). Crushed coal burns in a bed of powdered limestone (which absorbs sulphur dioxide). A flow of air keeps the bed in constant motion, bubbling like a boiling pan, and the whole vessel operates at five to 20 times atmospheric pressure. The first commercial PFBC plants, designed by ABB, are being built in Sweden, Spain and the US.

In an alternative approach known as integrated gasification combined cycle (IGCC), the coal first reacts with steam and oxygen to produce a raw fuel gas. This is cleaned chemically to remove pollutants before firing in a gas turbine to generate electricity. The hot exhaust then produces steam to power a second turbine.

Cool Water, the pioneering 100MW IGCC demonstration plant in California, ran successfully for five years up to 1989. Texaco is adapting Cool Water for re-opening in 1992, when it will burn a mixture of coal and sewage sludge.

Competing IGCC technologies have been developed by Shell, Dow and British Gas in collaboration with Lurgi, the West German engineering company, among others. The Shell Coal Gasification Process has been selected by Samenwerkende Electriciteits Productiebedrijven, the Dutch electric authority, for a 250MW IGCC plant to be built at Buggenum in the Netherlands.

In the UK, British Coal is developing a "topping cycle" plant which combines features of PFBC and IGCC. A multinational "club" of corporate sponsors is supporting British Coal's work at Grimethorpe in Yorkshire. The estimated thermal efficiency of a 300MW plant with a topping cycle is above 44 per cent.

Instead of adopting "clean coal" technology, it is possible to reduce carbon dioxide emissions by burning natural gas in power stations. Gas emits only half as much carbon dioxide per therm of energy as coal.

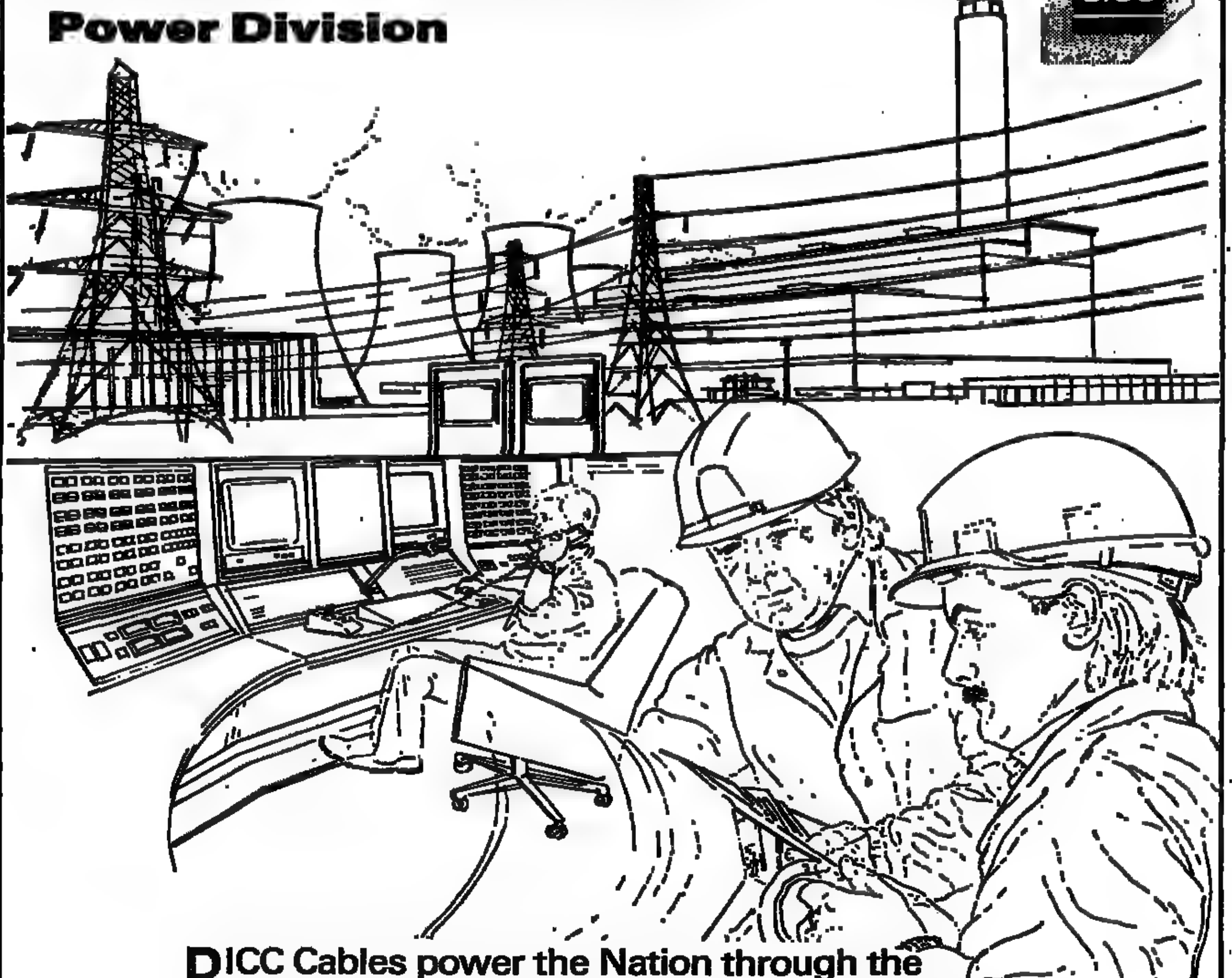
The trend towards gas-fired plants is being encouraged not only by environmental considerations but also because natural gas supplies are plentiful and competitively priced.

However, traditionalists in the electricity supply industry are warning against over-enthusiastic conversion to natural gas, in case the surplus disappears. And environmentalists point out that the advantage of gas over coal in terms of the greenhouse effect may be less than it appears, because significant amounts of gas leak into the atmosphere during distribution and unburned natural gas (methane) contributes to the greenhouse effect.

Acid rain is a less emotive issue than it was a few years ago when environmental groups drew attention to the way it was poisoning lakes and forests and dissolving buildings. Some of the steam has gone out of the protests since electric utilities began to spend large sums on equipment to reduce emissions of sulphur dioxide and nitrogen oxides (NOx) from power stations.

NOx pollution can be reduced by modifying the way the coal is burned in a conventional power station. In the UK National Power and PowerGen are spending £170m on a 10-year programme to install low NOx burners in their large coal-fired plants.

Sulphur dioxide emissions cannot be cut by adjusting the combustion process. They have to be removed afterwards by "scrubbing" the flue gases. Worldwide expenditure on flue gas desulphurisation (FGD) equipment could exceed $5bn a year during the early 1990s.



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Common carriage proposals are under scrutiny

Borderless power

THE ISSUE of a free market in the movement of electricity among European Community members did not figure in the Commission's 1987 Single European Act.

Indeed, the size, technical complexity and political nature of the sector serving the Community's 300m people, at first seemed to exclude the possibility of electricity supply being released to the vagaries of the market-place.

Yet, such was the momentum behind the free market ideology in Brussels that many in the Commission argued that Europe's largest industry should not be excluded.

In May 1988, proposals were put forward to remove technical, fiscal and administrative barriers to a borderless free market in electricity trade.

The European electricity supply industry (ESI) is concerned that the Commission is imposing free market principles on electricity supply without considering whether it is possible, and whether the sector itself will benefit.

The Commission argues that moves by the European utilities to modify the proposals reflect an attempt to safeguard their monopolies.

Ideally, the Commission sees a borderless market for electricity as enabling Europe to plan its power needs as a Community, rather than on an individual country basis.

Utilities would be forced to open their transmission grids to competition. Taxation of electricity throughout Europe would be harmonised. A single market could cut out construction of excess generating capacity, and even out supply and demand needs across the 12 member states.

Central to this idea is Electricité de France (EdF), France's state-owned utility, with its surplus of nuclear-generated electricity. The Commission says that EdF's surplus could meet demand shortfalls elsewhere in the Community.

The most controversial proposal put forward by the Commission to further this aim was that of common carriage for the European grid. This proposed that the grid would be open to such an extent that any EC customer would be able to buy power direct from any EC supplier.

Some trade could, therefore, bypass utilities altogether; a big industrial customer in West Germany would be able to ignore his local utility and buy electricity from EdF.

Common carriage in particular highlights the complexities involved in deregulating the European ESI.

Far from benefitting, the majority of EC utilities have protested that common carriage would run directly counter to their interests – including EdF, who, in theory, stood to benefit from increased export opportunities.

The proposals ignore the basic fact that a utility's foremost responsibility is to supply the customers in its own area. While EdF may want to export its surplus electricity, it will not do so at the expense of security of supply to its domestic customers. To utilities, creating such a free market strikes right at the heart of their security of supply.

Although many import power when it suits them, no utility likes to depend on imports entirely to meet its demand. For example, ENEL, the Italian state-owned utility, imports about 15 per cent of its power needs. Yet the utility is desperately seeking to reduce this dependence.

ENEL has been adamant in its rejection of common carriage as a threat to its attempts to build up Italy's installed generating capacity.

EC utilities argue that electricity cannot be treated as just another commodity in the market-place. It is not a tangible commodity like oil, and cannot easily be stored. It can only be transported via one means. Electricity supply is also a vital national industry which most countries prefer to keep under their own control.

Utilities maintain that an open market in electricity exists. Large volumes constantly flow across European borders. But the difference is that this trade is based on co-operation, not competition.

For the most part, power exchanges across European borders are a balance of imports and exports by member states. They are used as a load management device; it may be cheaper at certain times for a utility to import power.

The Commission argues that the utilities are trying to safeguard their monopolies

There are a few exceptions. EdF has contracts with the UK (presently waiting for renegotiation due to the UK privatisation) and Italy to supply electricity. The West German utility RWE has a long-term arrangement to supply Luxembourg. Spain supplies large amounts of power under contract to Portugal.

Most exchanges, however, are on an hour-by-hour spot basis, rather than a contractual one. They are attempts to improve utilities' supply security, rather than to make a profit on electricity sales.

Utilities stress it is this co-operation, not competition, which should be promoted. A recent deal was struck on this basis, prompted by the internal market proposals, between EdF, Spain and Portugal. EdF will supply power to Portugal, and some to Spain, via the Spanish grid. But this is not EdF merely using a right of open access; it is a carefully-negotiated contract between three utilities which all stand to benefit.

A large problem with common carriage proposals is that Switzerland and Austria, two countries central to the European grid, are not members of the EC. As they do not have to comply with EC rules, this could present a large barrier to free market exchanges.

An impetus behind deregulating the electricity market was the idea that EdF had a surplus of cheap, nuclear-generated power which could meet demand in the rest of the EC. But although EdF does have surplus nuclear capacity, this theory does not take into account EdF's own particular load requirements.

Recent evidence suggests that although EdF wants to extend future exports, it will not be interested in signing absolutely firm contracts.

EdF's demand is very susceptible to temperature change; when it gets cold EdF needs to use all its generating capacity to meet its own demand. Events such as last year's drought, which reduced hydro capacity and affected nuclear plant, meant EdF had to rely on imports.

So EdF will insist that export contracts can be interrupted, which will mean that no utility will be able to rely on such contracts instead of building their own plant.

EC industrial customers need the assurance of a firm contract in such a vital area as electricity, especially if the supplier is thousands of miles away. Their local utility, passed over in favour of EdF, is unlikely to be willing, or even able, to step in and supply power for just the days EdF is unable to.

The company could always invest in own generation, but this would either be prohibitively expensive, or would take away the advantage of the direct contract. EdF may be reluctant to supply cheap power to foreign industrial consumers, thereby enabling them to undercut their French rivals.

When Draft directives were produced in mid-July last year, the Commission acknowledged a more cautious approach, saying it would be unwise to force sudden pressure on sectors unaccustomed to change.

Common carriage proposals gave way to the much less extreme ones of common transit. This proposes a right of transit on large, integrated high voltage grids within or between member states, but not extended to third parties. In other words, EC utilities will not yet be able to contract to supply each other's industrial customers. These draft directives are being debated in the European Parliament.

The Commission has had to move slowly over the past 18 months towards an internal energy market much-diluted from its original proposals.

January 1993 may well see an increase in trade between EC utilities, but not the free, deregulated market that the Commission originally had in mind. The fact is that, whereas the EC is the creation of politicians, the ESI is the creation of engineers, and in the end theory will have to bow to practice.

Lucy Plaskett

David Marsh reports from West Germany

Plugging into the East

THE WEST German electricity supply industry is preparing with relish to take maximum advantages of the opportunities opening up in eastern Europe. But by far the greatest chances of increases in markets come from the Federal Republic's own backyard, East Germany.

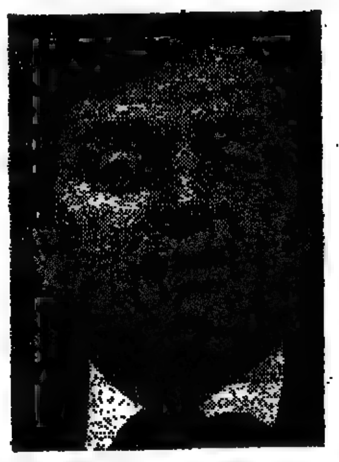
As momentum towards German unity picks up, West German electricity companies will be able to move eastwards in three main areas.

One will be the building of more efficient power stations to replace East Germany's aged and highly polluting generating plants. The second will be in direct transmission of electricity to the East via an updated and expanded grid network. The third encompasses the challenge of supplying adequate environmental protection equipment for existing plants.

The questions of power supply and the environment are interlinked. In no other field has East Germany more completely abandoned the pretence of independence from its powerful western neighbour.

West Germany's scepticism about nuclear energy has leapfrogged across the Elbe. West German magazines have highlighted the gross safety risks at the Soviet-designed Greifswald nuclear complex in the north of East Germany. Mr Klaus Töpfer, the Bonn Environment Minister, who has been scathing in his condemnation of the Greifswald hazards, recommended in February that two of the reactors be closed down. Almost as if they were grateful for the initiative, the East German authorities complied straight away.

More than 70 per cent of East Germany's primary energy consumption and more than 80



Klaus Töpfer: scathing

per cent of its electricity stems from burning of highly-polluting lignite. In 1988, East Germany consumed 310m tonnes of it – one of the areas (apart from its density of secret police) where East Germany occupied the international number one spot.

Phasing out lignite-burning plants will bring great opportunities for West German utilities. PreussenElektra, the electricity supply subsidiary of the Veba energy and chemicals conglomerate, started piping current to East Germany at the beginning of the year under a previously-negotiated transmission agreement. A prime condition for further deals however will be the renovation of the badly run down transmission network.

Veba wants to intensify electricity co-operation. One of the reasons why Veba held back from high-profile public announcements is because it does not want to damage East German sensitivities about a "sell-out" to the West.

Veba, whose former headquarters were in Berlin, is the successor of a company run by the Prussian state which had large electricity and coal-mining interests throughout the northern part of pre-war Germany.

Over the prospects of new power generating capacity, Kraftwerk Union (KWU), the power division of Siemens, the large electricity group is likely to stake out a claim to build more efficient coal-fired plant.

Nuclear opposition will constrain the market for new atomic power stations — just as it has cut into the market in the West. However, KWU and other parts of the West German nuclear industry are urging plans to continue N-plant building on the grounds that this is ultimately a "cleaner" option than construction of fossil-fuelled plants.

There is however agreement among both the pro- and anti-nuclear lobby that energy saving is the key to reducing East Germany's pollution. Large parts of the West German mechanical engineering industry can be expected to profit from a drive to install less energy intensive plant and equipment.

In the environmental protection field, where West Germany has attained European leadership in areas such as removal of pollutants from flue gases, important suppliers of environmental technology equipment see East Germany as a natural market.

In January, East German experts held talks with RWE, the largest West German utility, on bringing West German experience and know-how to the East – a flow of expertise which is likely to continue unbroken for years to come.

George Graham assesses Electricité de France

When profit is a dirty word

MR PIERRE Delaporte, chairman of Electricité de France (EdF), is not a man to mince his words.

"Last year was a catastrophe on the financial level. The situation of our company has become preoccupying," he said recently.

The state electricity producer made a loss of FFr4bn, its second successive year of losses and the sixth time in the last decade that it has been in the red.

Some of the reasons for the deficit were exceptional problems, which may not recur.

In particular, the summer of 1989 was one of the hottest and dryest that France has experienced for years, and the drought prevented EdF not only from running its hydro-electric power stations as much as it would have liked but also from cooling its nuclear power stations. The result was that it had to double its use of more costly thermal generators.

The company also suffered two sets of technical difficulties on its 1300MW series of nuclear reactors: welding faults on pressuriser seams, and, more worrying, deformations and cracking on steam generator tubes.

The 1300MW series reactors were, therefore, available only 62 per cent of the time, compared with 72 per cent in 1988. This increased EdF's use of costly coal and oil-fired generators.

For Mr Delaporte, the real problem is in the mind of the Government, which will not let him run his company and its pricing policy in a sensible way – or even in the way that it agreed in a four-year plan signed in April 1989.

"The problem is an error in the thought processes of our shareholder, who wants us to aim only for break-even and for who the idea of a public service company making profits is indecent. If we budget on break-even at the start of the year, then one year in two we will end up negative. The solution is childishly simple: you budget on a surplus of a couple of billion francs at the start of the year," Mr Delaporte said.

This is particularly annoying, Mr Delaporte says, because it helps to arouse the suspicions of the competition authorities at the European Commission every time EdF reaches a power supply deal with an industrial customer.

Its innovative contract with Pechiney, which is building a new aluminium smelter at Dunkirk in northern France, has been approved by the Commission, but a contract with Exxon Chemicals is being investigated for possible unfair state subsidy.

"We lose money one year in two, and a company which loses money one year in two can only be suspect in the eyes of Brussels," comments Mr Delaporte, adding that Sir Leon Brittan, the Brussels Competition Commissioner, is "not a fanatical friend of state companies, nor particularly francophile."

Sir Leon Brittan

EdF's four-year plan should, in theory, provide it with the necessary framework for improving its financial position. With the plan, signed with the Government in April 1989, EdF has undertaken to reduce its debt by FFr20bn by 1992; to restrict its price increases to 1.5 per cent below the rate of inflation, with a particular effort to limit price rises for corporate customers; and to improve its products and services.

Last year, however, the price rises allowed by the Government over the course of the year amounted to an average of 0.6 per cent. The budget at the start of the year had planned on an average of 1.5 per cent, and that was based on an inflation forecast which turned out to be one percentage point lower than reality.

"If we were convinced that the delay in allowing us to raise our tariffs was necessary to keep the franc safe on the international foreign exchange markets, we would gladly sacrifice on the altar of the fatherland, but we do not believe it for a moment," Mr Delaporte said.

Besides its financial results, EdF's enormous nuclear generating capacity, the largest in the world except for the US, is another cause for suspicion.

With 55 reactor units connected to the grid, and a capacity of 52,000MW, EdF derives 80 per cent of its power from nuclear energy.

It is often accused of having built too much nuclear capacity, and of having, therefore, to dump current on other countries. No new reactors were brought on stream last year, but another eight units are under construction on four different sites and due to link to the French electricity network by 1993.

Mr Delaporte firmly rejects the claim that EdF has nuclear overcapacity.

"If I had overcapacity, I wouldn't have had to run my coal and even my oil-fired stations for so long last year," he says.

It is indisputable that France has become a large exporter of power, and the Government has no intention of abandoning this outlet.

"We have a structural advantage in this domain, and not just a temporary overcapacity leading us to sell off our surplus," said Mr Roger Fauroux, the industry minister, in a recent speech on energy policy.

Mr Fauroux added that he thought it was well within reach for EdF to double its electricity exports to over FFr15bn, and that together with exports of fuels and retreatment services the entire nuclear industry could represent over FFr20bn a year of exports for France.

Roger Fauroux: EdF could double its exports to over FFr15bn

Most of EdF's exports are to continental Europe with leading customers including Switzerland, which imported 12.7TWh last year, and Italy, with 11.4TWh of imports.

EdF has signed an agreement under which it will supply power to Portugal via the Spanish grid. The straightforward cost of transport, around 7 centimes per KWh, would have made the deal unprofitable, but by an interactive arrangement with the Spanish power authorities it was possible to work out an economically viable contract.

The UK, however, with which France has a direct current cross-Channel cable, is EdF's biggest single customer, with net imports of 13TWh last year, the same level as in 1988.

Mr Delaporte is, nevertheless, concerned about developments in the UK electricity industry. EdF expects to be present on the reorganised British electricity market as a power supplier, but is still unsure of what rules the game will be played by.

"Even the liberals are beginning to be inhibited by what is happening in the UK. As privatisations go, this one looks more like a chain-saw massacre," he said.

In the meantime, plans to double the capacity of the cross-Channel power cable seem to face considerable delay. Clients and bankers have said they are ready to contribute to the financing of a second line, but the UK wants the new cable to emerge to the west of London, not right next door to the existing connection.

This will make it much more costly to build, probably about £1bn, according to Mr Jean Bergougnoux, EdF's managing director.

THE TRIBULATIONS of the Thatcher government in its efforts to privatise the UK electricity industry show similarities with the debate in the US about how to subject its own sprawling system to the disciplines of the market.

The two industries could hardly be more different, but that makes the parallels all the more revealing. Whereas British electricity was supplied by a centrally run state monopoly dominated by the Central Electricity Generating Board, (and two smaller utilities for Scotland), Americans are supplied by some 3,250 undertakings, with most of the generating capacity privately owned.

In spite of their much greater diversity, however, US electricity utilities have operated under the same central presumption of Britain's nationalised industry: that they are granted a monopoly in their territory in return for a guarantee that they will maintain supplies to all customers and on condition that they surrendered the power to set prices.

Windpower in California: a world away from theories on open competition in electricity

Max Wilkinson compares the US with the UK

Free market fears

Utilities in the US must apply to State regulatory commissions for permission to raise tariffs, to change their structure and even, in some cases, to lower them.

In Britain, the Government has pretended disingenuously to keep at arms length from pricing decisions, but it has used the financial targets set for the industry to maintain close control over general pricing levels. It has intervened directly, to change relative prices, for example by supporting a scheme which cross-subsidised larger industrial customers at the expense of domestic consumers.

This combination of monopoly power and official interference has created dissatisfaction on both sides of the Atlantic.

In the US, the presumption that utilities should be guaranteed a "fair" rate of return on their assets, resulted in steep price increases in the late 1970s, when rising interest rates and fuel prices and the failure of the nuclear programme conspired to end a long era of declining costs.

When regulators started to refuse to allow utilities to recover the costs of "over-expensive" or unwanted plant, utilities stopped building. Now, faced with a revival of electricity demand, particularly on the north-east coast, the same utilities are increasingly looking towards small independent producers to supply their needs under contract. The new plant, often gas turbines or combined cycle coal fired stations, are more efficient and may be only a tenth of the size of the large power stations of the late 1970s.

The excessive cost of large plant and the failure of the nuclear programme similarly shifted attention to the possibilities of smaller competing power suppliers in the UK.

However, the prospect of large numbers of small independently owned power plants has begun to raise urgent questions about the kind of market that may be needed in the electricity industry of the future.

In the US independent generating companies may not always want to be tied to their local utility by long term exclusive contracts. Even if they are, everyone will benefit if neighbouring utilities engage in vigorous trade to ensure that the most efficient plant is used to the maximum extent.

Hitherto, exchanges between utilities have mostly be within exclusive co-operatives or clubs called "pools". Members agree to back each other up in emergencies and to share the benefits of pooling their best plant.

Although quite effective in a world of territorial monopolies, these pools do not measure up to the aspirations of big companies and independent electricity producers which would like (in principle at least) a genuine market for the trading of power.

Is a free market conceivable in an industry in which all suppliers and all producers are instantaneously connected by the power lines, where all must co-operate against the over-riding danger of power failures and where co-operative scheduling of plant is the accepted way of reducing overall costs?

In both countries competiton in electricity is turning out to be an animal with a vicious tail

This is the question which the Thatcher government was forced to confront with embarrassing rapidity after it decided in the summer of 1987 that electricity would be the next great nationalised industry to be returned to the private sector.

The decision was driven by ideology and political expediency rather than a close understanding of how an electricity market might actually work. Indeed some of the early commentators wrongly assumed that the US industry, being privately owned, could be used as a free market model.

Largely because of this error, the privatisation plans were driven into an impasse in the summer of 1989, from which many in the industry believed they could not be rescued. It was only by changing her Energy Secretary and by abandoning the ideal of a free market for the time being, that Mrs Thatcher was able wrap the industry into packages acceptable to the bankers and brokers organising the sale.

For eight years, the 12 distribution companies will be guaranteed at least partial monopolies in their territories and the two generating companies south of the border will have little difficulty in hanging on to most of the business. But after that?

Well, a different government will be in power, but it is possible (some say likely) that competition will break out on scale that would make US utilities shudder with anxiety.

They shudder because the idea of a free market in electricity is futuristic. It has never been tried on a large scale anywhere in the world; it depends on the ability of high speed computers to solve large numbers of continuously changing equations; and it derives from a theory developed in the US only in the last decade.

The reason that an electricity market is so complex is that the ordinary economic equilibrium between buyers and sellers found in a market for apples or pears must simultaneously satisfy the physical demands of the network.

At every instant throughout the network, supply must exactly match demand. If it doesn't, the whole system may be subject to cascading power failures. One reason is that when customers switch on their light, they expect it to go on. There is no provision in the average home for a notice to appear saying "Sorry the XYZ Power Company is sold out of electricity today."

Because electricity (unlike gas and oil) cannot be stored, economic and physical equilibrium must be achieved simultaneously at every point in the network. This is made even more complex by the fact that the cost of transporting power from generator to customer (a significant part of the price) varies continuously and rises rapidly when the lines become congested.

Instead of a single spot price as one might have in, say, a corn exchange, an electricity market may require large numbers of spot prices to be calculated in different parts of the network, and the prices for transmission would vary in relation to these spot prices.

For those interested, I have explained the theory and some of the implications in a recent Harvard University paper. The essential point is that a market in electricity, though possible in theory, presents huge practical difficulties even in a simplified form.

No wonder that the US Congress has shown little desire to become embroiled in an issues in which such complex theory is only the overture, as it were, to an involved plot of conflicting commercial and political interests.

The same is roughly true in the UK. The Government having marched bravely towards the idea of a competitive electricity market in 1988, has since beat a hasty retreat to the familiar ground of parleying with monopolists.

In both countries competition in electricity is turning out to be an animal with a vicious tail and much sharper teeth than politicians like the sight of.

Power Monopolies and the Challenge of the Market, Max Wilkinson, published by the Energy and Environmental Policy Center, John F Kennedy School of Government, Harvard, 79 John F Kennedy Street, Cambridge MA 02138, USA.

JAPAN

Fighting economic foes

OVER THE last two years, Japan's Ministry of International Trade and Industry (MITI) has supervised several electric power rate reductions to pass on the benefits of cheap foreign energy supply purchases to consumers. It seemed like a good idea at the time, especially to consumers.

The recent rise in oil costs together with the sudden decline of the yen against the US dollar have rained on the electric power industry's parade. Moreover, a belated rise in anti-nuclear activism has begun to delay progress in the country's ambitious nuclear power development programme.

Japan's electric power industry is made up of nine large shareholder-owned regional utilities, led by Tokyo Electric Power (Tepco), the largest private sector power company in the world.

The companies generated 633.4bn kWh last year. As Japan has few indigenous energy resources, the companies have been trying hard in recent years to shift the bulk of their production from imported fossil fuels to nuclear.

Last year, thermal power accounted for 59.5 per cent of total generation, nuclear 28 per cent and hydraulic 12.5 per cent.

Since the mid-1980s, the relatively stable environment in which the companies worked has been repeatedly disrupted – first by the rise in the value of the yen, then tumbling oil prices and latterly by the emergence of a strong anti-nuclear movement.

These forces can be seen at work in the companies' profit performance. In the year to March, 1987, for example, Tepco's pre-tax profits rose 29 per cent to Y444bn, thanks mainly to the impact of the high yen on imported fuel prices. As a result, MITI ordered the companies to lower their rates.

In the past year, the price of oil has risen and the yen has weakened, with devastating effects. In the year to March 31, 1989, the company is estimated to have made only Y180bn in pre-tax profits. A cut in the dividend may be in the offing, but otherwise the company is optimistic that it can manage with the lower rates.

"Our shareholders may be disappointed, but we are enjoying a high increase in demand, so we can deal with rates at the *current level*," says Tokyo Electric Power Company.

The companies' more substantial worry is the anti-nuclear groundswell which has swept through Japan in the past two years, initially as a result of the Chernobyl accident.

The Japan Socialist Party, the leading opposition party is committed to a freeze on future nuclear power development and anti-nuclear groups have gained support in the past year following an accident at a nuclear plant in northern Japan that was poorly explained to the public.

In mid-March, a fire that police suspect was set by anti-nuclear activists killed one fireman and destroyed vehicles at a building housing the offices of the government-run Power Reactor and Nuclear Fuel Development, in Tokyo.

The group is building Japan's first nuclear waste reprocessing plant and is heading the development of the country's prototype fast breeder reactor. In a recent mayoral election in the town where the recycling plant is being built, the candidate who won ran on a platform calling for a temporary freeze on the construction of the plant.

Even though the future role *of nuclear generated power in* Japan appears less certain than it did even two or three years ago, it is far from being on the verge of extinction. Some 38 nuclear plants operate in Japan, with 13 under construction and four more planned.

Nuclear power supply as a percentage of total electricity supplied by Japan's nine leading electric utilities, including TEPCO, declined from 30.7 per cent to 28.0 per cent from 1987 to fiscal 1988, stemming from fewer plant openings and more than usual number of unit inspections, according to the Japan Electric Power Information Center.

By fiscal 1998, nuclear power will make up 35 per cent of total generating capacity, according to the Central Electric Power Council, which plans development and co-ordinates among the nine utilities.

TEPCO generates more than a third of its total output from nuclear power and aims to raise that share to 42 per cent by 1998.

TEPCO says the rising price of oil and the weaker yen make nuclear power sources more attractive than at any time since 1980, when oil prices soared, making any switch back to oil even more unlikely.

Japan's continuing strong economy, which saw power consumption increase unexpectedly by 5.4 per cent last year to 672.3bn kWh, means Tepco and other electricity generating companies will be stepping up capital investment rather than cutting back to bolster short-term profits.

In the short run, the only alternative is to reduce running costs. To do this, Tepco plans a two-pronged strategy: first introduce thermal power generation technology in order to reduce fuel consumption per kWh. Second, to reduce maintenance costs, for example street utility pole maintenance, personnel costs and labour, without jeopardising safety.

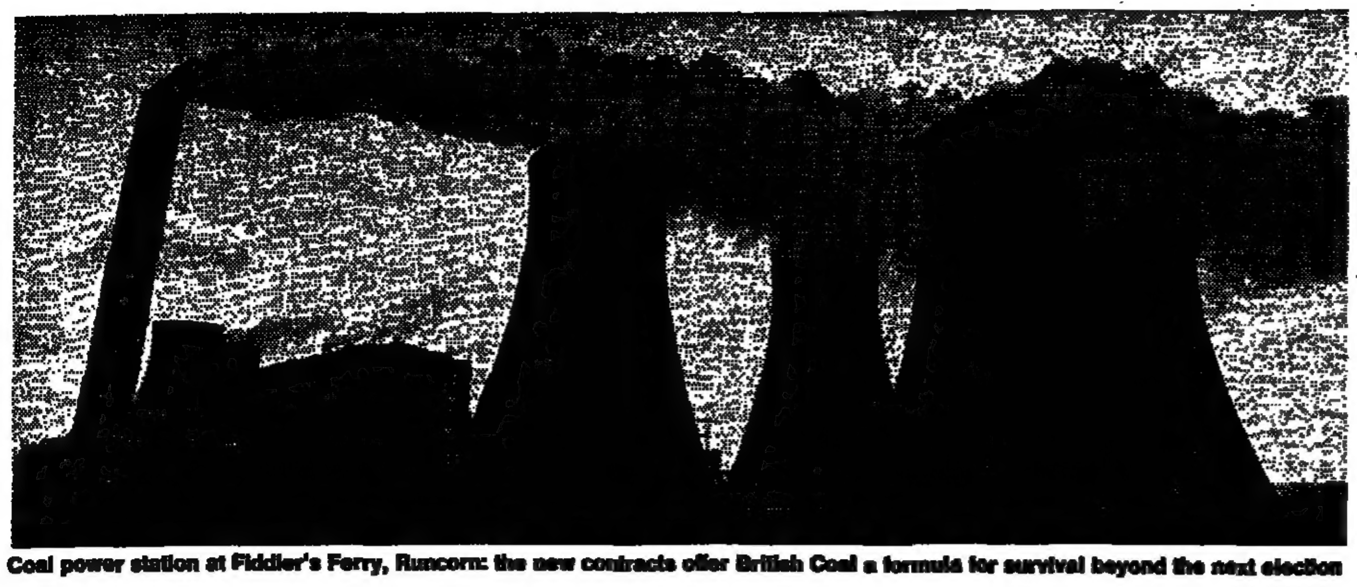
Industry sources say the main challenge confronting the electric power industry is not finding substitutes for nuclear power, but drumming up public support for it.

An revised long-term energy report from MITI due in May may throw the anti-nuclear forces a sop by moderating previous *ambitious forecasts for* nuclear capacity, but MITI and the industry will be working hard to try and win back public support for the nuclear programme.

A recent study by brokers Salomon Brothers in Tokyo predicted that the companies will be forced to develop more thermal power *stations in* the future in response to environmental concerns.

"We predict that the lion's share of any increase in Japan's energy needs will be in the form of liquefied natural gas, which offers the lowest level of carbon monoxide and carbon dioxide emissions of all *the fossil fuels* and is free of the negative sentiment that is associated with nuclear power."

Chris Perry,
Tokyo



Coal power station at Fiddler's Ferry, Runcorn: the new contracts offer British Coal a formula for survival beyond the next election

The future for Britain's collieries remains uncertain

Slow start for brave new world

THE SIGNING of the coal supply agreement between British Coal and the power companies PowerGen and National Power should have finally dispelled any belief that it will be easy for the two power companies to compete.

The contracts for most of both power companies' fuels supplies are virtually identical following negotiations that were conducted jointly between British Coal and both power companies. However, the final hours of the negotiations took place in four rooms so National Power and PowerGen could hide the finer points from each other.

For both companies the average price will come to £1.70 a gigjoule – £41.65 a tonne: 43.5m tonnes for National Power, 26.5m tonnes for PowerGen. The brave new electricity world sired by then Energy Secretary, Mr Cecil Parkinson in 1987 has got off to anything but a competitive start.

From the outset the power companies acted as though they believed all Mr Parkinson's rhetoric: that they would have freedom to purchase fuels form whatever source they chose; that the cost of supplies would be the key to purchases.

The replacement of Mr Parkinson by Mr John Wakeham in the summer of 1989 dispelled the fantasy. A free-for all on coal imports was not be countenanced if it meant a further culling of mines; particularly if it was those operated by members of the Union of Democratic Mineworkers.

At the same time, puzzlement began to mist the energy's departments' perceptions on electricity generation economics. The CEGB has been extremely profitable for years, 90 per cent of energy generation was either from British Coal or from nuclear stations; the nuclear stations were rumbled as being heavy loss-makers for the CEGB.

Could it be that the CEGB owed its profitability to the famously unprofitable British Coal? In consequence, it was felt impolitic and possibly uneconomic to dissolve the forced marriage between British Coal and power generation in England and Wales.

That decision made, the power companies were shocked at both the price they had to pay for British coal as well as the volume contained in the contract which is to cover 1990-93: 70m tonnes in each of the next two financial years and 65m tonnes in 1992-93.

Although much has been made of the all-night negotiations that finalised the details of the contract, the large volumes and price for the coal was effectively dictated by the Energy Department back in November 1989. The imperative was to give British Coal a reasonable chance of successful operation to enable it to be privatised sometime in the early 1990s.

The contract, combined with the terms of the Coal Industry Bill currently making its way through Parliament, offers British Coal a formula for survival beyond the next election. If the Tories are returned and the party proceeds with its declared plan of privatising British Coal the power companies may well find themselves obliged to sign much longer-term contracts with British Coal. Without contracts it would be extremely difficult to accord British Coal its full value. A valuation based on coal-in-the-ground could prove exceedingly small.

Much of the new contract confirms what has been the practice between the two sides for years: quality penalties and reject rates and so on. Probably the biggest change has been the formal linking of each power station with a pit or group of pits. These groups did not coincide with British Coal operating groups and are far more numerous. For the first time mines, or at most groups of mines, will be credited for their sales on a straightforward linkage with quality based on the £1.70 a gigjoule price.

Previously all British Coal mines received that same price for their coal regardless of its value to the CEGB. There had been anxieties that the new contract would mean that the north-east mines would receive a price in line with imported prices. Most of the the north-east pits ship their coal to the Thames power stations where imports enter most cheaply. This would have effectively threatened these pits with imminent closure.

These new pit groupings will, if the next government has a mind to sell off British Coal piecemeal, form logical embryonic coal companies and although both British Coal, as well as the National Union of Mineworkers, have set their faces against competition between mines it is difficult to see how it is to be avoided.

Will the new contracts see more mine closures? British Coal chairman, Sir Robert Haslam suggests that a period of stability will descend on the company once the contracts have been absorbed and implies that the contracts will themselves bring about closures – 70m tonnes for 1990-91 compares with 80.6m tonnes consumed by power stations in 1989. (Almost all of which was taken by the CEGB). Other senior British Coal executives voice the opposite concern: that the company will have insufficient coal to meet the 70m tonnes requirement.

Whatever the fate of the collieries because of the contract, the performance of British Coal at present suggests that 1989-90 is not a good year to start from.

For some reason – geological problems are given the blame by Sir Robert – the first half if this financial year produced some unappetising financial results. For the first 34 weeks of the financial year, the deep-mined operating cost of £1.70 per gigjoule rose to £1.89 per gigjoule when interest payments are included. Most dramatically, in North Yorkshire (which includes Selby) a high £1.89 per gigjoule rises to £2.29 per gigjoule. Selby, whose four mines lost £123.4m in 1988-89, has still to perform anything like satisfactorily.

However, assuming that the mines can turn the corner, particularly with £5bn to 7bn of debts re-financed (the figure being suggested by the Energy Department as an outcome of the coal industry bill), the ubiquitous and growing environmental concerns present it with a tough passage through the rest of the century.

Reports from the power companies are suggesting that they do not wish to finance construction of 12,000MW of flue gas desulphurisation equipment needed to help Britain meet its obligations to cut sulphur emissions.

They threaten low sulphur imports as an alternative. This route on its own simply would not be enough unless the UK displaces all the 70m tonnes in the current contracts with 0.75 per cent sulphur imported coal. While the pleading of the power producers appears to be intended to decide who pays for the flue gas desulphurisation rather than on whether it is built at all, it is clear that the problems of British Coal get worse as the 1990s proceed.

Much of the concern being voiced is how the UK meets its 1993 sulphur emission targets with 12,000MW of flue gas desulphurisation being just one route suggested.

By 1998 some 50m tonnes of control will be required either through flue gas desulphurisation or gas burning or low sulphur coal imports or by the introduction of more benign coal-burning technologies, to meet the targeted 40 per cent cut on 1980 emission levels. By 2003, 70m tonnes would be required to meet the target of a 60 per cent cut.

For British Coal's higher sulphur coals an option to go the flue gas desulphurisation route or at least for introduction of new coal burning plant is essential if it is to stay a high-volume supplier.

This will require a vast investment and it is difficult to see the new power companies providing it.

Gerard McCloskey, editor, International Coal Report

PRIVATISATION AND PUBLIC SPENDING

Pricing the family silver

PRIVATISATION is a lucrative business. Some estimate that the Government will have reaped £26.8bn in privatisation proceeds by the year end.

The Government, however, denies it is selling off the family silver – although the sums involved are large enough to have quite an impact on its fiscal policy.

For a start, it argues that the money has come from the international capital markets, rather than the tax-payer. It has adopted the free-market dogma that runs: introducing competition to formerly state-run industries awakens productivity, and leads to greater efficiency, consumer choice and share ownership.

While British Airways and British Telecom among others are acknowledged to have made great strides on this front, other privatisations have been subject to criticisms that efficiency and competition have been sacrificed to the easy transfer of ownership.

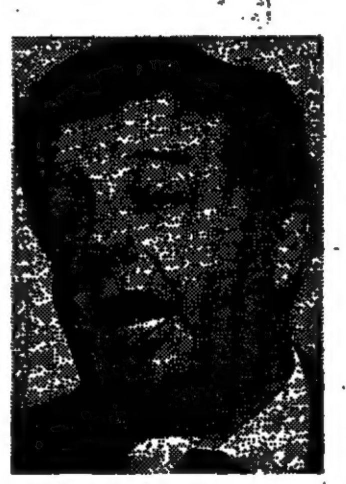
Mr Nigel Lawson, the ex-Chancellor, denies it. "Privatisation has transformed a substantial sector of the British economy and brought about the largest extension of share ownership that we have ever seen in Britain. These achievements give lie to the accusation that the only reason for privatisation was to raise money for the Exchequer."

As the financial markets gird themselves for the biggest privatisation yet, there still promises to be some healthy controversy along the same lines. Mr John Wakeham, the Energy Secretary, has announced large cross-subsidies for industrial users, and the pegging of electricity charges to just above the rate of inflation. These price controls have drawn accusations that he is maintaining an artificial momentum towards privatisation.

It is now possible that the public is so used to privatisations that there will be less grumbling over the remaining pieces of family silver in the 1990s.

Analysts are worried that the subsidies could result in reduced profits for the two generating companies, National Power and PowerGen, which are to be sold in February next year. However, the subsidies are not expected to have an impact on the privatisation proceeds issuing into the Exchequer from the sale of the electricity industry in England, Scotland and Wales.

Mr Anthony White, at James Capel, lead broker to the Government, says that the total book value of the industry is about £32bn on current cost terms.



John Wakeham: subsidy offer

Market estimates for the revenues of the sale range from £9.5bn (by UBS Phillips and Drew, adviser to the Scottish board) to about £12bn (by James Capel). The fact that the industry has a yield of only 3 per cent (after-tax profits as a percentage of assets) results in the big discrepancy between book value and the estimated sale revenue. As a nationalised industry, the aim was to maximise its asset base, not profits.

Brokers reckon the Government will inject about £1bn of debt prior to sale. This will increase initial revenue – but reduce the equity value of the companies afterwards. "The bigger the initial debt injection, the bigger the risk for the shareholder," James Capel says.

The Government, together with brokers, is able to offer a clear analysis of the impact of the electricity sale on its finances. Some confusing accounting conventions must be dealt with first: the treatment of privatisation revenues in the Government accounts is a curious one, according to Mr Matthew Bishop and Mr John Kay of the London Business School.

Historically, purchases of shares and assets were treated in the national accounts as public expenditure, rather than investment. This convention provided the basis for classifying all sales of public assets and shares as the reverse of their purchase, as negative public expenditure.

That curious convention aside, details of the Government's spending plans have been revealed in the 1990 Budget. But the proceeds of the electricity privatisation had been taken into account already, in the medium term financial strategies (MTFS) of the last two Budgets.

In the 1989 MTFS, the Government's intention to make public spending fall to 38.5 per cent of national income by 1993 was made clear. Mr Nigel Lawson set public expenditure planning totals until 1993, and said that public spending, excluding privatisation proceeds, would rise by an average 1¼ per cent a year.

"The estimate of privatisation proceeds, is unchanged, at £5bn a year," he said.

The government's sale of electricity will be play a big role in meeting the estimates: the 12 area boards to be sold in November of the next financial year could raise £5bn (5.5bn, UBS P&D); the two generating boards in the following February, could raise £5bn (3.5bn, UBS P&D); and the Scottish board in May or June could raise £1bn.

The cost of the sale could be about £20m, but could cost much more if the Government gives a "green dowry" to help reduce pollution in coal-fired generators. The second call for the water sale is due in July, and will raise £1.5bn. Rover and Girobank will raise £250,000, and British Telecom an additional £8bn, says Mr Nigel Richardson, economist at Warburg Securities, the London investment house.

At UBS P&D, analysts say the Government will only jut meet its £5bn target for the next financial year. The proceeds of water and the first electricity sale will net just £4.8bn, unless the Government "ups the first part-payment for electricity," says Mr John Wilson, privatisation analyst for both water and electricity sales.

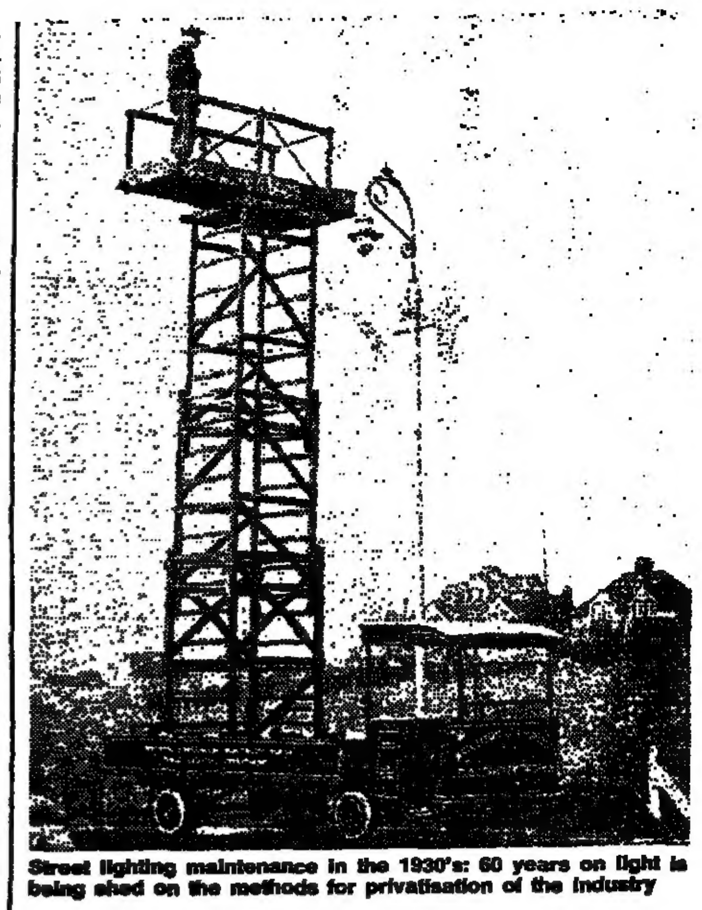
Without the privatisations, the Government could not have reduced the ratio of public spending to national income: in three years, 1982, 1986 and 1987, it met targets "only as a result of the inclusion of privatisation proceeds," Mr Bishop, says.

In present stock market conditions, the sale should be a success and the proceeds should flow into the Exchequer as planned. Experts are also sure that the Government has no immediate need of £12bn.

"The government isn't desperate for liquidity . . . though the cash does come in useful for paying off the national debt," Mr Richardson says.

This makes the accusations of selling off the family silver rather redundant, economists say. As the Government is running a budget surplus, it is the free-market dogma rather than public spending which has forced the sale of public assets to the private sector.

Rachel Johnson



Street lighting maintenance in the 1930's: 60 years on light is being shed on the methods for privatisation of the industry

FLOTATION MECHANISMS

Water sale sets fine precedent

DEVISING the mechanism for the privatisation in the autumn of the 12 area electricity supply companies would be a pretty hard slog had last November's flotation of the water companies not been such a big success.

The smoothness of the water share sale, in particular the enthusiastic buying that emerged for the retail part of the float even in the teeth of vigorous debate about the rights and wrongs of selling the industry, makes water a compelling precedent.

It is early days yet. The Government's advisers have been too busy toiling over the capital structure of the area supply companies and the generators in the run-up to the new regime which begins next week to have made any final decisions on the nuts and bolts of the flotation.

As far as the area companies go, it is hard to imagine Kleinwort Benson, the Government's financial advisers on electricity, diverging too far from the trail blazed last autumn by Schroders.

This is in spite of the fact that, about two years ago, Kleinwort was advocating a different method of tackling the problem of how a clutch of separate regional businesses should best be made appealing to the public.

The basis of Schroders' method was an underwriting by institutional investors of a package of shares in all the companies, and the simultaneous sale of separate shares in each of them to the public.

By contrast, Kleinwort had earlier advocated the "exploding share" or "star-burst" mechanism: rejected by the Government some time ago, but not quite dead ahead of the experience of water.

The idea here was that investors would be offered a single share which would after a few years "explode" into shares in all the companies. But between flotation and the explosion, investors would have the option to convert it into shares in their local regions.

This was said to have two main advantages over the alternative plan. First, it removed from the merchant bank responsible for the offer the onerous and hazardous task of trying to price each individual company so that it was just as attractive as the rest. This judgement would be left up to the market as the share was broken up.

A related advantage was that, since all investors would initially buy the same share, they would all see it achieve the same premium in first dealings. This would avoid public annoyance that might emerge if shares in some companies traded at significantly higher levels than others.

As matters turned out with the water flotation, shares in certain of the companies have indeed come to trade at appreciably higher levels than others – yet there has been no outcry from private investors.

The silence probably owes much to the fact that shares in *all* the companies have risen to good premiums. Additionally, the differentials between the performance of the various companies were within a reasonably narrow band at the outset; divergencies since owe much to the substantial stakes taken in some companies by the French water companies.

Against this background, a public offer of separate shares in each the 12 distribution boards seems almost inevitable. It could be expected that, as in water, all the shares will be sold at a common price with differences between the companies built into the numbers of shares and the yields.

In the case of water, there was substantial "public awareness" advertising ahead of the flotation to make sure everyone knew the identity of the local water companies.

However, with the area electricity companies one may well see less of this. This is because research suggests that some 80 to 90 per cent of people are aware of the industry's identity. That, however, is no indication of popularity and a generous package of incentives to encourage local buying of the companies seems inevitable.

The institutions are again likely to be asked to underwrite a package of shares; but crucial to the market performance of the shares will be how they choose to allocate funds after dealings begin.

One factor they are not expected to be taking into account is which of the area companies qualifies to join the FT-SE 100, an index of the biggest UK stocks to which certain institutional funds link their performance.

The 12 companies are expected to be worth about £5bn in total, roughly the same as water. Individually their worth is likely to be much closer together, ranging between about £300m and £700m. So, unlike the biggest water companies, none looks like a potential FTSE-100 recruit.

The significance of this can, however, be overplayed. All of them will be joining the wider FT-A All Share index, which is more often used as a stock market measure. So none seems likely to be overlooked purely on the grounds of size when institutions come to work out how to allocate their weighting in the sector.

Thinking about the mechanics of the flotation of NatPower and PowerGen, scheduled for February next year, is bound to be an even more embryonic stage.

That both of the generators would be sold simultaneously, reflecting the desire on both their parts to come together ahead of the next general election, was confirmed only a few weeks ago. The character of the flotation changed last November when it was decided to keep nuclear power in the public sector rather than putting it into National Power – thus reducing the size of that company and making it more similar to PowerGen.

All sorts of questions about the flotation have yet to be answered, including the most basic one of whether investors will be granted the choice of buying one or two companies or be compelled to invest in both.

It seems a fair speculation that the latter cause will be pursued. This is because if investors were allowed to choose, the pressure would be on to make sure *both* of them were over-subscribed, and this would tend to exert downward pressure on the proceeds.

Assuming dual investment is compulsory, one would expect them both to be sold, like the area companies, at the same share price, with differences in size reflected in different numbers of shares. This is because the company sold at the lower share price would look cheaper.

With flotation details for the English and Welsh companies undecided, it is doubtful if Barclays de Zoete Wedd, the Government's advisers on the sale of the Scottish industry, scheduled for May or June 1991, have got down to the minutiae.

Although this is the smallest part of the operation with proceeds expected to stand at about £1bn, it is likely there will be a retail portion with a bias towards encouraging the Scottish customer to invest.

Clare Pearson

David Thomas *opens some of the doors to the new structure of the industry*

Throwing light on dimly lit areas

THE NEW structure of the electricity supply industry in England and Wales is almost complete. It has been nailed into place plank by plank behind closed doors in Whitehall. The Department of Energy has not placed a high priority on telling the outside world how the new system will operate. What follows is an attempt to answer some of the more obvious questions.

● *When does the new system come into operation?*

On March 31, the industry's "vesting day," all the new companies come into formal existence and the new market for electricity operates.

● *Which are the new companies?*

There are three generators: National Power and PowerGen, which will run the fossil fuel power stations; and Nuclear Electric, which will be responsible for the nuclear stations. The 12 area electricity boards are mutating into 12 area supply companies. The National Grid Company will run the national grid.

● *When will these companies be sold?*

The area companies are to be sold in the autumn, probably in November. The National Grid Company is jointly owned by the area companies and will pass into the private sector at the same time. National Power and PowerGen are to be sold next year. Nuclear Electric will remain in the public sector. (The two Scottish electricity companies due for privatisation are to be sold after National Power and PowerGen).

● *Is there to be a free market in electricity?*

No: there will be substantial restrictions on competition, although the Government says that most of these will be removed after eight years. The new system will be regulated by Professor Stephen Littlechild, director general of the Office of Electricity Regulation (OFFER). He assumes full power on vesting day.

● *Will I be free to shop around for an alternative supplier of electricity?*

If your maximum demand is less than 100KW – which means almost all households and many small businesses – you will be entitled to be supplied according to a published tariff by your local area company. You may negotiate an individual contract with your area company, although few small consumers are expected to take advantage of this. After March 1998, you may obtain electricity from other suppliers.

If maximum demand is between 100KW and 1MW – most small businesses – you will be entitled to a tariff supply from your area company. You may negotiate an individual contract with your area company. After March 1994, you may receive electricity from other suppliers.

If maximum demand is between 1MW and 10MW – most medium sized businesses – you will be entitled to a tariff supply from your area company and can negotiate a contract with your area company or any other supplier.

If your maximum demand is over 10MW – a large electricity user – you must sign an individual contract with a supplier, either your area company or any other supplier.

● *Will prices be controlled?*

Up to a point. There are three price control formulae which constrain price rises at various points in the industry. These follow the RPI-X pattern pioneered in previous privatisations. However, the industry is allowed to pass the bulk of its costs, and in particular its fuel costs, to the customer. The Government says that about 35 per cent of a consumer's final electricity bill is subject to price controls. The Government hopes that the new competition in the industry will help to keep down remaining costs.

The Government has announced some initial ad hoc price controls, to enhance electricity privatisation's popularity. The area companies have announced price rises above inflation for household and small business customers for 1990-91. But the Government has told the area companies not to increase their prices on average by more than inflation up to March 1993.

The Government restricted price rises for large industrial users to the inflation rate for 1990-91. Most area companies have offered many large industrial users substantial price cuts.

● *What is the nuclear levy and can I avoid paying it?*

Suppliers of electricity are obliged to buy some electricity generated from nuclear power stations and a few other relatively minor non-fossil fuel sources. Nuclear power is more expensive than electricity generated from fossil fuels.

The levy, known technically as "the fossil fuel levy," bridges the cost gap between nuclear power and fossil fuel-based power. It will be a levy on suppliers: they will pass it to end users.

The levy is to be set at 10.6 per cent of the cost of electricity. The Government expects the levy to fall by about one third over eight years. A company will not pay the levy on electricity it generates for its own use.

● *Who can supply electricity?*

In theory, just about any organisation, as long as it receives a special licence ("a second tier supply licence") from OFFER. In practice, suppliers are likely to be restricted to four main categories: the area supply companies; National Power and PowerGen; large users of electricity who generate their own electricity and wish to sell a surplus and a new batch of independent generators which the Government hopes will rush to take advantage of the new regime.

Area companies will not be allowed to supply more than 15 per cent of their demand for electricity from power stations in which they have an equity stake. National Power and PowerGen will not be able to capture more than 15 per cent of demand in any area – the limit will be increased to 25 per cent in March 1994; and abolished in March 1998.

● *Who can generate electricity?*

In theory, just about anybody. But the Energy Secretary has to grant permission for any new power station over 50MW. Most generators operating a station over 10MW will need a generating licence from OFFER, unless the station's main purpose is to supply in-house electricity or that of a single on-site customer.

● *How will suppliers pay generators for their electricity?*

This is where the complications begin to mount. Almost all transactions between generators and suppliers will pass through the "pool," which will be administered by the National Grid Company (NGC).

Generators must declare to the NGC every day the price at which they are supplying electricity from their power stations for each half hour of the following day. The NGC chooses the cheapest power stations which taken together can meet demand in every half-hour.

All generators will be paid for their power the price demanded by the highest priced station in operation – this is called "the system marginal price" – plus a capacity element. The NGC then adds a number of charges, including for transmission, before billing suppliers.

● *How will contracts fit into this structure?*

In order to hedge their risks against volatility in pool prices, large users and suppliers of electricity are likely to enter contracts similar to those which exist in other commodity and financial markets.

These contracts could, for example, guarantee that users or suppliers would not have to pay more than a set price for electricity, even if the pool price goes above this set price. They would pay the generator additional fixed payments for the benefit of these contracts. Several types of contract are expected to emerge and a market in the financial instruments, akin to other commodity markets, could develop.

● *Why is the new system all so complicated?*

Pass. Anyone wanting more detail should consult the clearest description yet published of the new electricity structure: *Reshaping the Electricity Supply Industry in England and Wales. Anthony White, James Capel, 6 Bevis Marks, London EC3A 7JQ*

PROFILE: Professor Littlechild

Academic in the hall of the private sector

MUCH OF the responsibility for overseeing Britain's electricity industry during its first years in the brave new world of the private sector will fall on the shoulders of Professor Stephen Littlechild, a quietly spoken economist from Birmingham University.

Prof Littlechild will assume his full powers as Director General of Electricity Supply and head of the Office of Electricity Regulation (OFFER) next week after vesting day. His job as regulator of an industry in its post-privatisation phase has clear precedents, since a similar path was followed in the cases of telecommunications, gas and water.

Prof Littlechild, aged 46, knows something of these other industries from his lifelong work on the economics of regulation and of the nationalised industries.

He helped to shape the pathbreaking regulatory regime for British Telecom, the first privatised utility in Britain, by writing a report for the Government which recommended the "RPI-X" pricing formula.

He has supplemented this academic work with an eight year stint on the Monopolies and Mergers Commission, where he participated in the commission's reviews of the two Scottish electricity boards and of competition in the industrial gas market.

The new electricity regulator sees important differences between his position and that of the other regulators.

The structure of the electricity industry is radically different from that of other privatised industries, especially telecommunications and gas where the regulators have had to encourage the emergence of fledgling competitors to dominant, quasi-monopoly suppliers.

OFFER will oversee 19 privatised electricity companies, since its remit extends to Scotland and to the nuclear industry, which will be remaining in the public sector.

None of them will tower above the industry in the way that British Telecom and British Gas dominate their respective domains.

Prof Littlechild believes this will have implications for his method of working.

"The fact that we have a large number of companies with different interests means I will be acting more as a referee between them, rather than in a David versus Goliath situation. My job will be to adjudicate between the parties, rather than to take up the burden of overseeing one major licensee," he says.

There is an important respect in which Prof Littlechild believes he faces an easier task than the regulators of other privatised industries – access to information. The early years of privatisation in some industries, notably gas, have been marked by acrimonious battles by the regulator to obtain information on items such as cost.

The Government has learnt the lessons of earlier battles

Prof Littlechild says the Government learnt the lessons of these battles, writing into the licences governing the players in the privatised electricity industry strong requirements to make information available. "I don't anticipate any difficulties in getting the information I need," he says.

He believes that the electricity companies have learnt the lessons of previous privatisations – that privatised companies have tended to emerge as losers from battles with their regulators, especially if the battles land up with the Monopolies and Mergers Commission, the court of appeal.

"The (electricity) industry has accepted that competition will take place and is reacting positively to the prospect," Prof Littlechild states.

Others – particularly users – are more sceptical. They point out that the two generators in England and Wales heading for the private sector, National Power and PowerGen, were previously divisions of the same company, the Central Electricity Generating Board.

Most of their managers are life-long CEGB employees, deeply imbued with its bureaucratic, monopolistic culture. Knowing each other's cost structures back to front, the generators will not even need to meet in smoked-filled rooms to ensure that competition between them is less than cut-throat.

Prof Littlechild pours cold water on fears of even tacit collusion between National Power and PowerGen.

"The fact that they were once part of the same company does not mean that they have the same interests now. They each have an interest in securing as great a share of the market as possible. From what I've seen I don't think they are acting in a collusive way at all."

Another worry is that the spate of announcements by National Power and PowerGen of new gas-fired power stations is intended to keep out independent generators, which the new industry structure is intended to encourage.

OFFER knows of about 17 proposals for new gas-fired power stations, most of which do not involve either National Power or PowerGen.

Prof Littlechild sees no reason to believe that the parallel proposals by National Power and PowerGen are intended to crowd out the market. He points out that building gas stations is a sensible strategy for the two generators, since they are cheaper and more flexible than large coal-fired stations.

"I cannot interpret their decisions on this score as anti-competitive. If they were to build too much plant, that would inevitably depress the prices they could charge."

Although Prof Littlechild believes there is scope for competition on price between the players in the new electricity market.

He accepts that the prices charged by the different companies will inevitably tend to be fairly similar, since electric-


Prof Stephen Littlechild

ity is an undifferentiated commodity . But he believes that there will be plenty of opportunities for competition on other fronts.

One is in terms of energy conservation. Pointing to US experience, Prof Littlechild predicts that electricity companies will begin to say to large users: "If you take your supply from us, we will help you cut your usage."

Another field of competition, Prof Littlechild argues, will be the offer of contracts tailor-made to a particular user's needs: some users might prefer a one-year contract, for example, while others would plump for a seven-year deal.

Prof Littlechild is busy building up OFFER's strength. He is about three-quarters of the way to his target of having 220 staff in post.

OFFER will be based in Birmingham, but over half its staff will be in regional offices, which will bear the initial brunt of any complaints about the new regime.

His main official functions are clearly defined in the privatisation legislation and include:

● **Price reviews:** OFFER will ensure that the privatised companies abide by the terms of the three price control formulae (the "RPI-X" formulae) which will govern the industry.

One applies to the transmission activities of the National Grid Company (NGC), while the other two cover the distribution and supply activities of the area companies.

OFFER is likely to review the entire basis of NGC's price formula after three years and of the area companies' formulae after five years.

● ***Performance standards:*** OFFER has powers to specify sums which the area companies will pay to tariff customers if standards of service fall below set levels.

These performance standards will cover areas such as the length of time customers are disconnected from the system.

All customers with demand of less than 10MW can be tariff customers and the great majority of small users will be.

● **Competition:** Prof Littlechild will oversee what is intended to be the carefully structured emergence of competition in the industry.

He will try to ensure that the electricity companies do not distort competition through cross-subsidies.

David Thomas,
Resources Editor